



Consolidated Financial Statements  
**June 30, 2010**  
(Unaudited – Prepared by Management)

**August 10, 2010**

**In accordance with National Instrument 51-102, released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited financial statements for the period ended June 30, 2010.**

**RediShred Capital Corp.**  
**Unaudited Consolidated Balance Sheets**  
**As at June 30, 2010 and December 31, 2009**

	June 30, 2010	December 31, 2009
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 1,197,803	\$ 1,086,036
Accounts receivable	227,191	321,588
Prepaid expenses and deferred charges	25,172	16,850
Notes receivable from franchisees (note 4)	29,396	24,445
Income taxes recoverable	10,726	11,062
	<u>1,490,288</u>	<u>1,459,981</u>
Notes receivable from franchisees (note 4)	121,531	139,781
Equipment (note 5)	415,512	204,998
Intangible assets (note 7)	4,751,043	4,364,364
Deferred financing charges (note 6)	107,769	110,431
	<u>6,886,143</u>	<u>6,279,555</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	311,860	340,021
	<u>311,860</u>	<u>340,021</u>
Line of credit (note 8)	1,240,000	-
Future income tax liability	611,083	646,000
	<u>2,162,943</u>	<u>986,021</u>
<b>Shareholders' Equity (Deficiency)</b>		
Capital Stock (note 9)	8,585,808	8,585,808
Contributed surplus	249,045	208,391
Accumulated other comprehensive income	137,107	141,621
Deficit	(4,248,760)	(3,642,286)
	<u>4,723,200</u>	<u>5,293,534</u>
	<u>\$ 6,886,143</u>	<u>\$ 6,279,555</u>

**Commitments and contingency (note 10)**

# RediShred Capital Corp.

## Unaudited Consolidated Statements of Operations

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenue from franchising</b>				
Franchise territory fees	\$ -	\$ -	\$ -	\$ 21,752
Royalty and service fees	235,092	200,175	477,105	403,882
	<u>235,092</u>	<u>200,175</u>	<u>477,105</u>	<u>425,634</u>
<b>Operating expenses</b>				
Salaries	(249,674)	(320,753)	(468,323)	(581,656)
General, administrative and marketing	(167,900)	(401,893)	(306,894)	(658,241)
	<u>(417,574)</u>	<u>(722,646)</u>	<u>(775,217)</u>	<u>(1,239,897)</u>
<b>Corporate operations</b>				
Service and recycling revenue	100,685	-	100,685	-
Corporate store costs	(61,452)	-	(61,452)	-
Corporate store depreciation and amortization	(14,248)	-	(14,248)	-
Interest expense	(9,198)	-	(9,198)	-
Income from corporate stores	<u>15,787</u>	<u>-</u>	<u>15,786</u>	<u>-</u>
<b>Operating loss before the following</b>	<b>(166,695)</b>	<b>(522,471)</b>	<b>(282,325)</b>	<b>(814,263)</b>
Depreciation and amortization	(151,196)	(193,226)	(358,047)	(394,553)
Unrealized foreign currency gain (loss)	2,906	(59,301)	2,206	5,798
Interest income	1,006	2,122	2,544	8,954
<b>Loss before income tax</b>	<b>(313,979)</b>	<b>(772,876)</b>	<b>(635,622)</b>	<b>(1,194,064)</b>
Income tax recovery (expense)	13,148	21,236	29,148	44,697
<b>Net loss for the period</b>	<b>\$ (300,831)</b>	<b>\$ (751,641)</b>	<b>\$ (606,474)</b>	<b>\$ (1,149,367)</b>
<b>Loss per share - Basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.03)</b>	<b>\$ (0.02)</b>	<b>\$ (0.05)</b>
<b>Weighted average number of common shares outstanding</b>	<b>28,884,658</b>	<b>22,884,614</b>	<b>28,884,658</b>	<b>22,884,614</b>

# RediShred Capital Corp.

## Unaudited Consolidated Statements of Shareholders' Equity and Comprehensive Loss

	Capital stock \$ (note 8)	Contributed surplus \$	Accumulated other comprehensive income \$	Deficit \$	Total shareholders' equity \$
<b>Balance - December 31, 2008</b>	7,650,565	189,400	503,873	(1,639,243)	6,704,595
Net loss	-	-	-	(1,149,367)	(1,149,367)
Other comprehensive income:					
Foreign currency translation gain (loss)	-	-	(137,842)	-	(137,842)
Comprehensive loss	-	-	-	-	(1,287,209)
Stock-based compensation	-	18,056	-	-	18,056
<b>Balance - June 30, 2009</b>	7,650,565	207,456	366,031	(2,788,609)	5,435,443
Net loss	-	-	-	(853,676)	(853,676)
Other comprehensive income:					
Foreign currency translation gain (loss)	-	-	(224,410)	-	(224,410)
Comprehensive loss					(1,078,086)
Issuance of shares and warrants (net of costs)	935,243				935,243
Stock-based compensation		935			935
<b>Balance - December 31, 2009</b>	<b>8,585,808</b>	<b>208,391</b>	<b>141,621</b>	<b>(3,642,286)</b>	<b>5,293,534</b>
Net loss				(606,475)	(606,475)
Other comprehensive income:					
Foreign currency translation gain (loss)			(4,514)		(4,514)
Comprehensive loss					(610,989)
Stock-based compensation		40,654			40,654
<b>Balance - June 30, 2010</b>	<b>8,585,808</b>	<b>249,045</b>	<b>137,107</b>	<b>(4,248,760)</b>	<b>4,723,199</b>

# RediShred Capital Corp.

## Unaudited Statements of Cash Flows

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net loss for the periods	\$ (300,831)	\$ (751,641)	\$ (606,474)	\$ (1,149,367)
Add Items not affecting cash				
Depreciation and amortization	165,444	193,226	372,295	394,553
Unrealized foreign currency loss (gain)	8,155	59,301	(2,206)	(5,798)
Stock-based compensation	37,379	7,399	40,654	18,056
Future income taxes	(13,148)	(91,904)	(29,148)	(95,917)
	(103,001)	(583,619)	(224,879)	(838,473)
Net change in non-cash working capital balances related to operations				
Decrease (increase) in accounts receivable	150,120	(8,827)	94,397	(30,403)
Decrease (increase) in prepaid expenses and deferred charges	381	(12,410)	(8,322)	44,849
Decrease (increase) in deposits	-	20,106	-	49,884
Increase (decrease) in accounts payable and accrued liabilities	61,895	127,739	(28,161)	(78,878)
Increase (decrease) in taxes payable	(299)	-	336	-
	109,095	(457,011)	(166,629)	(853,021)
<b>Financing activities</b>				
Increase in credit facility	1,240,000	-	1,240,000	-
<b>Investing Activities</b>				
Increase in notes receivable from franchisees	-	(38,821)	-	(60,690)
Collection of notes receivable from franchisees	2,237	39,368	13,299	61,261
Cash paid on acquisition of assets	(755,364)	-	(755,364)	-
Capital expenditures	(219,539)	-	(219,539)	-
	(972,666)	547	(961,604)	571
<b>Effect of foreign exchange rate changes on cash</b>	9,332	(89,580)	(1,287)	(69,783)
<b>Net change in cash for the period</b>	367,097	(366,884)	113,054	(782,667)
<b>Cash - Beginning of period</b>	821,374	1,257,618	1,086,036	1,653,604
<b>Cash - End of period</b>	\$ 1,197,803	\$ 801,154	\$ 1,197,803	\$ 801,154

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### 1 Nature of operations

RediShred Capital Corp. (the "Company") was incorporated under the Canada Business Corporations Act on October 18, 2006. The Company's common shares were listed for trading on the TSX Venture Exchange on September 5, 2007 as a Capital Pool Company. The Company's business until March 17, 2008, was the identification and evaluation of shredding businesses that could qualify as a Qualifying Transaction under TSX Venture Exchange policies. On March 17, 2008, the Company acquired the shares of Professional Shredding Corporation ("PSC"), which directly and indirectly carries on the business of granting and managing shredding business franchises under the "Proshred" trademark. The acquisition served as the Company's "Qualifying Transaction" pursuant to the policies of the TSX Venture Exchange and was approved by the TSX Venture Exchange.

On April 30, 2010, the Company, through its wholly owned subsidiary, Redishred Acquisition Inc. ("RAI") acquired the assets of the Proshred Syracuse, New York franchise, which provides shredding and recycling services to the greater Syracuse, New York market, and serves as the Company's first corporately operated location. On June 30, 2010, the Company acquired the assets of the Proshred Albany, New York franchise which provides shredding and recycling services to the greater Albany, New York market, and serves as the Company's second corporately operated location.

As of June 30, 2010, Proshred Franchising Corp. ("PFC"), a wholly owned subsidiary of PSC, has awarded 17 (December 31, 2009 – 17) locations (15 franchised and 2 corporately operated), of which 17 (December 31, 2009 – 17) were in operation.

### 2 Significant accounting policies

#### Basis of presentation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements include accounts of the Company and its wholly owned subsidiaries PSC, PFC and RAI. All transactions between the Company and its subsidiaries have been eliminated.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### 2 Significant accounting policies (continued)

#### Recent accounting pronouncements issued and not yet adopted

##### *Business Combinations*

In January 2009, the CICA issued CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidated Financial statements, and Section 1602, Non-controlling Interests, which replace Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Early adoption of this section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the entity's interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011. Early adoption of this section is permitted. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

##### *International financial reporting standards (IFRS)*

In February of 2008, the Canadian Accounting Standards Board ratified a strategic plan that will see GAAP converged with, and replaced by, IFRS for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. For the quarter ended March 31, 2011, the Company expects to issue its financial results on an IFRS basis with comparative 2010 data on an IFRS basis. Further, the Company anticipates a significant increase in disclosures resulting from the adoption of IFRS and is continuing to assess the level of disclosures required and any necessary system changes to gather and process information.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### 2 Significant accounting policies (continued)

#### Use of accounting estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates include, but are not limited to, the following:

- Economic useful life of proprietary software system for purposes of calculating depreciation
- Valuation of accounts receivable and notes receivable from franchisees;
- Valuation of intangible assets including purchased customer lists; and
- Assumptions used in the measurement of stock-based compensation and the fair value of warrants.

While management applies its judgement based on assumptions believed to be reasonable under the circumstances at the time, actual results could vary from their assumptions or had different assumptions been used. The Company evaluates and updates its assumptions and estimates based on any new events occurring, additional information being obtained or more experience being acquired.

#### Cash

As at June 30, 2010 and 2009, the Company's cash balances were held in bank accounts, which the Company has full access to, and do not include any instruments related to asset-backed securities or commercial paper programs.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### 2 Significant accounting policies (continued)

#### Revenue recognition

##### *Franchising business*

The Company earns revenue from initial franchise fees paid by franchisees to secure territories for a specific period and from royalties and service fees paid by franchisees as a percentage of their monthly sales volumes. Initial franchise fees are recognized as revenue when the franchisee has paid the initial franchise fee and has fully executed a franchise agreement and has been provided the prescribed training. Royalties and services fees revenue is accrued on a monthly based on sales reported by franchisees. Interest income on notes receivable is recognized in the month earned.

##### *Corporate operations – shredding and recycling services*

The Company earns revenue from providing shredding services to clients and by way of the sale of recycled paper to recycling facilities. Shredding service revenue is recognized as revenue when the shredding service has been performed and the Company has provided a certificate of destruction and invoice to the client and collections are reasonably assured. Recycling revenue is recognized when the collected paper has been delivered to the recycling facility and collections are reasonably assured.

#### Income taxes

The Company uses the liability method of accounting for income taxes. Under the liability method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. Changes in future income tax rates assets and liabilities as a result of changes to the enacted tax rates are included in income tax recovery (expense) in the period that the substantive enactment occurs. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided.

#### Stock-based compensation

The Company accounts for stock options issued under its stock option plan using the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and is recognized over the vesting period. Option pricing models require the input of highly subjective assumptions including the expected volatility. Changes in the assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### 2 Significant accounting policies (continued)

#### Foreign currency translation

The Company's subsidiaries operates autonomously as a self-sustaining companies. The functional currency of the Company's foreign subsidiaries, Proshred Franchising Corp. and Redishred Acquisition Inc., is the US dollar. Assets and liabilities of this subsidiary are translated into Canadian dollars at exchange rates at the balance sheet date. Income and expense items are translated at average exchange rates for the period. Cumulative translation adjustments are included as a component of accumulated other comprehensive income in shareholders' equity.

Foreign currency exchange gains or losses, derived from monetary assets and liabilities denominated in currencies other than the functional currency, are translated into the functional currency at the exchange rate in effect at the balance sheet date, with the resulting foreign currency gains or losses included in the determination of the income for the year.

#### Equipment and amortization

Equipment is carried at cost. Amortization is provided for over the estimated useful lives, using the straight-line basis at the following annual rates:

Computer equipment	2 years
Computer software	3 years
Furniture and fixtures	3 years
Bins and shredding containers	5 years
Shredding vehicles - chassis	5 years
Shredding vehicles – shredding compartment	5 years
Recycling equipment	5 years

#### Intangible assets

Intangible assets are recorded at their fair value at the date of acquisition of the related subsidiary. Amortization is provided for intangible assets with limited lives on a straight-line basis over their estimated useful lives of ten years, with the exception of non-compete agreements which are amortized over five years.

#### Impairment of long-lived assets

Long-lived assets, including equipment and other intangible assets are reviewed for impairment when events or circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment losses are recognized when the carrying value of the asset is greater than the future undiscounted cash flows expected to be provided by the asset. The amount of impairment loss, if any, which is the excess of net carrying value over fair value, is charged to income for the period.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### 2 Significant accounting policies (continued)

#### Deferred financing charges

Deferred financing charges consist of costs incurred relating to the issuance of a revolving line of credit obtained on December 23, 2009 and are amortized over the term of the facility which expires on November 27, 2014.

#### Loss per share

Basic loss per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share is calculated based on the weighted average number of common shares outstanding during the period, plus the effect of dilutive common share equivalents such as options and warrants. The diluted loss per share amounts are calculated using the treasury stock method, as if all the common share equivalents where average market prices exceeds issue price and had been exercised at the beginning of the reporting period, or the period of issue, as the case may be, and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of the common shares during the period. Since the Company has losses, the exercise of outstanding stock options has not been included in the calculation of diluted loss per share as it would be anti-dilutive.

#### Financial instruments

##### i) Financial instruments – recognition and measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

The Company has implemented the following classifications:

- Cash is classified as “Financial Assets Held-for-Trading”. These financial assets are marked-to market through net income at each period end.
- Accounts receivable and notes receivable from franchisees are classified as “Loans and Receivables”. After their initial fair value measurement, they are measured at amortized cost using the effective interest method.
- Accounts payable and accrued liabilities are classified as “Other Financial Liabilities”. After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### 2 Significant accounting policies (continued)

#### ii) Financial instruments – disclosures

Section 3862 requires additional disclosure requirements about the fair value measurement for financial instruments and liquidity risk disclosures. These requirements include a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The only financial instrument recorded at fair value is cash, which is valued based on market prices in an active market (Level 1).

#### iii) Comprehensive income

Under Section 1530, comprehensive income is comprised of net earnings and other comprehensive income (OCI) which generally would include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation adjustments net of hedging arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. Accumulated other comprehensive income is presented as a category of shareholders' equity.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### 3 Acquisition of shredding assets in New York State

On April 30, 2010, the Company, through its wholly owned subsidiary, Redishred Acquisition Inc., acquired the assets of the Proshred Syracuse, New York franchise, which provides shredding and recycling services to the greater Syracuse, New York market, and serves as the Company's first corporately operated location.

On June 30, 2010, the Company acquired the assets of the Proshred Albany, New York franchise which provides shredding and recycling services to the greater Albany, New York market, and serves as the Company's second corporately operated location.

The preliminary allocation of the purchase price to the assets acquired (including all identifiable intangible assets arising from the purchases) based on their estimated fair value at the date of acquisition is as follows:

<b>Assets acquired</b>	<b>\$</b>
Computer equipment	2,621
Furniture	2,621
Bins and shredding containers	10,222
Shredding vehicles	69,216
Baling equipment	6,662
Customer lists	637,027
Non-compete agreements	10,484
Franchise agreements	16,511
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Total assets acquired	<u>755,364</u>

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### 4 Notes receivable from franchisees

Notes receivable arise from the financing of the initial franchise fee by franchisees, are guaranteed by the respective owners of the franchises, bear interest rates ranging from 5.25% to 6.25% per annum with monthly blended payments of principal and interest ranging from US\$526 to US\$1,797, commenced between dates ranging from June 30, 2006 to April 15, 2009 and maturing between dates ranging from October 1, 2011 to March 15, 2012. The amounts are as follows:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<b>\$</b>	<b>\$</b>
Principal	194,219	207,583
Less: Allowance for impairment	43,292	43,333
Less: Current portion	<u>29,396</u>	<u>24,445</u>
	<u>121,531</u>	<u>139,781</u>

The Company has recorded an allowance for impairment against a note receivable based on the present value of expected future cash flows using a discount rate equal to the effective interest rate on the note receivable prior to the Company ceasing to accrue interest charges. Management was required to use judgment based on assumptions believed to be reasonable in making this estimate. As such, actual losses could differ from the estimate. At June 30, 2010, the gross amount of notes receivable payments 90 days or more past due amounted to \$51,336 (December 31, 2009 - \$32,628).

The fair value of these notes has been disclosed in note 11.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

### 5 Equipment

	As at June 30, 2010		
	Cost \$	Accumulated amortization \$	Net carrying amount \$
Computer equipment	81,480	(77,683)	3,797
Furniture and fixtures	50,231	(29,911)	20,320
Computer software	432,534	(335,692)	96,842
Bins and shredding containers	17,750	(592)	17,158
Shredding vehicles - chassis	80,291	(2,413)	77,878
Shredding vehicles – shredding compartment	199,342	(6,487)	192,855
Bailing equipment	6,662	–	6,662
	<u>868,290</u>	<u>(452,778)</u>	<u>415,512</u>

  

	As at December 31, 2009		
	Cost \$	Accumulated amortization \$	Net carrying amount \$
Computer equipment	77,266	(66,989)	10,277
Furniture and fixtures	47,610	(21,823)	25,787
Computer software	432,534	(263,600)	168,934
	<u>557,410</u>	<u>(352,412)</u>	<u>204,998</u>

The company acquired equipment from the acquisition of the Syracuse and Albany, New York businesses, as per note 3. The Company also purchased \$1,594 in computer equipment, \$7,528 in bins and shredding containers and \$210,417 in shredding vehicles during the six month period ended June 30, 2010.

### 6 Deferred financing charges

In December 2009, the Company arranged a \$4 million revolving line of credit facility with a five-year term. Costs associated with this facility including warrants to be issued (see note 9 (f)), will be expensed over the term of the facility.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

### 7 Intangible assets

As at June 30, 2010				
	Cost \$	Accumulated amortization \$	Accumulated write-down \$	Net carrying amount \$
Franchise agreements	2,897,564	(666,237)	(155,163)	2,076,164
Proshred system	978,000	(228,200)	–	749,800
Trademarks and intellectual property	1,672,500	(390,259)	–	1,282,241
Customer lists	637,027	4,497	–	632,530
Non-competition agreements	10,484	176	–	10,308
	<u>6,195,575</u>	<u>(1,289,369)</u>	<u>(155,163)</u>	<u>4,751,043</u>

  

As at December 31, 2009				
	Cost \$	Accumulated amortization \$	Accumulated write-down \$	Net carrying amount \$
Franchise agreements	2,883,800	(528,694)	(155,311)	2,199,795
Proshred system	978,000	(179,300)	–	798,700
Trademarks and intellectual property	1,672,500	(306,631)	–	1,365,869
	<u>5,534,300</u>	<u>(1,014,625)</u>	<u>(155,311)</u>	<u>4,364,364</u>

The Franchise agreements, Proshred system and Trademarks and intellectual property above were acquired as part of the purchase of PSC on March 17, 2008. The Company had no goodwill or other intangible assets prior to March 17, 2008. The setup costs, customer lists and non-competition agreements above were acquired as part of the purchase of the Syracuse and Albany, New York assets.

The Company's franchise agreement intangible assets, customer lists and non-competition agreements are denominated in US dollars and are subject to foreign currency fluctuations. The Company's foreign currency translation gains and losses on other intangible assets are a component of accumulated other comprehensive income or loss.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### 7 Intangible assets (continued)

Intangible assets with a finite life are tested for impairment when events or changes in circumstances indicate their carrying value may not be recoverable. When the undiscounted cash flows of the assets are less than the carrying value of the asset, a write-down is required. One franchisee ceased their operations, materially affecting the value of future cash flows related to that franchise agreement. The Company assessed the intangible assets for impairment and recorded a write-down of intangible assets in 2009.

The analysis did not show any further impairment.

### 8 Line of credit

The Company has a credit facility with a private investor that can be used to finance the Company's ongoing acquisition program as well as be used for general corporate purposes. As at June 30, 2010 the Company has used \$1.24 million of the \$4 million facility. The interest rate on the debt is 10% per annum compounded daily, payable semi-annually; this facility expires November 27, 2014.

### 9 Capital stock

#### a) Authorized

Unlimited number of common shares, without nominal or par value  
Unlimited number of preferred shares, without nominal or par value

#### b) Issued

The following table outlines the number of common shares and warrants outstanding as at June 30, 2010 and 2009, there were no common shares or warrants issued during either period:

	As at June 30, 2010				
	Common stock		Warrants		Total \$
	Number	\$	Number	\$	
Balance, December 31, 2009	28,884,658	8,297,602	4,000,000	288,206	8,585,808
Balance, June 30, 2010	28,884,658	8,297,602	4,000,000	288,206	8,585,808

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### 9 Capital stock (continued)

	As at June 30, 2009				
	Common stock		Warrants		Total \$
	Number	\$	Number	\$	
Balance, December 31, 2008	22,884,614	7,650,565	-	-	7,650,565
Balance, June 30, 2009	22,884,614	7,650,565	-	-	7,650,565

#### c) Details of share issuances

On March 17, 2008, the Company issued 9,615,383 common shares for cash of \$5,000,002. In addition, 3,269,231 common shares valued at \$1,700,000 were issued to Professional Shredding Partnership as part consideration for the purchase of PSC; as at June 30, 2010, 980,769 common shares owned by Professional Shredding Partnership were held in escrow. As at June 30, 2010, a total of 2,779,269 common shares were held in escrow and will be released in future periods in accordance with the Escrow Agreement.

On December 23, 2009, the Company issued 6,000,044 common shares for cash of \$900,007. Of the 6,000,044 common shares issued, existing directors and officers of the Company purchased 3,000,044 common shares at a price of \$0.15 per common share. The Company also granted warrants to acquire 3,000,000 common shares in connection with the issuance (see note 9(f)), but not to any existing directors and officers. On the same day, the Company granted warrants in connection with the line of credit, entitling the lender to acquire 1,000,000 common shares (see note 9(f)).

#### d) Weighted average common shares

The basic weighted average number of common shares outstanding for the six months ended June 30, 2010 was 28,884,658 (June 30, 2009 - 22,884,614).

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### e) Stock options

Under the terms of the stock option plan:

- i) From time to time, the Company designates eligible participants to whom options will be granted and the number of shares to be optioned to each;
- ii) Eligible participants are persons who are directors, officers, employees and technical consultants of the Company;
- iii) Options to purchase shares are non-transferable and are exercisable for a period of up to five years from the date of grant;
- iv) Shares to be optioned shall not exceed 2,888,465 (June 30, 2009 – 2,288,462) and the total number of shares to be optioned to any eligible participant shall not exceed 10% of the issued and outstanding shares of the class as at the date such option is granted;
- v) The option price for the shares is determined at the time of granting of the option but cannot be less than the fair market value of the shares at the time the option is granted less any applicable discount permitted by the Toronto Venture Exchange; and
- vi) The term during which any option granted may be exercised is determined by the Company at the time the option is granted but may not exceed the maximum period permitted from time to time by the Toronto Venture Exchange.

The following table summarizes the movements in the Company's stock options during the period ending:

	<b>June 30, 2010</b>		<b>December 31, 2009</b>	
	<b>Number of shares</b>	<b>Weighted average exercise price \$</b>	<b>Number of shares</b>	<b>Weighted average exercise price \$</b>
Outstanding – beginning of year	1,673,349	0.34	2,050,849	0.33
Granted	350,000	0.14	-	-
Forfeited	(335,849)	0.52	(107,500)	0.52
Expired	-		(270,000)	0.20
Outstanding – end of period	<u>1,687,500</u>	0.27	<u>1,673,349</u>	0.34

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

### f) Stock options (continued)

The following table summarizes the stock options outstanding as at:

Exercise prices \$	Issue date	June 30, 2010			December 31, 2009		
		Number of options outstanding	Weighted average remaining contractual life (yrs)	Options exercisable	Number of options outstanding	Weighted average remaining contractual life (yrs)	Options exercisable
0.20	Aug 29, 2007	975,000	2.17	975,000	975,000	2.66	975,000
0.52	Mar 17, 2008	352,500	2.72	177,500	352,500	3.21	88,125
0.52	Mar 17, 2008	-	-	-	335,849	0.21	335,849
0.60	May 26, 2008	10,000	2.91	5,000	10,000	3.40	2,500
0.15	May 25, 2010	350,000	3.90	175,000	-	-	-
		<u>1,687,500</u>	2.65	<u>1,332,500</u>	<u>1,673,349</u>	2.29	<u>1,401,474</u>

The compensation charge for the options issued was determined based on the fair value of the options at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	<b>2010</b>
Expected option life	2.9 years
Risk-free interest rate	2.8%
Expected dividend yield	nil
Expected volatility	50%

350,000 options were granted during the six months ended June 30, 2010 (2009 – nil).

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### g) Warrants:

The Company issued two tranches of warrants in 2009. The first tranche was issued in connection with the private placement on December 23, 2009 and the second relates to the line of credit obtained on the same date. Details are as follows:

				2010
	Exercise price \$	Number of warrants outstanding or to be issued	Remaining contractual life	Assigned value \$
Tranche 1	0.25 to 0.45	3,000,000	4.41 years	204,406
Tranche 2	0.25 to 0.45	1,000,000	4.48 years	83,800

The fair values for both tranches of warrants was determined using the following assumptions under the Black-Scholes option pricing model:

Expected warrant life	5 years
Risk-free interest rate	1.06%
Expected dividend yield	nil
Expected volatility	234%

In connection with the line of credit, 1,000,000 warrants were issued on April 28, 2010 when the line of credit was first drawn upon, in accordance with the line of credit agreement. These warrants were recorded in the financial statements in 2009 as performance by the counterparty is complete. The fair value of these warrants have been recorded as deferred finance charges and are being amortized into income over the term of the facility and are also subject to a 2 year holding period commencing on the date of issuance. This is a non-cash transaction and has been excluded from the statement of cash flows.

Tranches 1 and 2 of warrants expire on November 27, 2014 and December 23, 2014, respectively.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### 10 Commitments and contingency

#### Commitments

As of August 1, 2008, the Company leases office premises in Mississauga, Ontario, Canada. The lease expires on September 30, 2013. Additionally, the Company leases facilities in Albany, New York, which expires on March 31, 2011 and leases facilities on a month to month basis in Syracuse, New York. Future minimum lease payments for the Company for the years ending December 31<sup>st</sup> are as follows:

	\$
2010	72,224
2011	128,338
2012	122,968
2013	92,226

#### Contingency

On June 18, 2010, three franchisees that operate Proshred Franchises filed a complaint with the United States District Court, Southern District of New York. The Complaint has listed the following causes of action, (1) breach of contract and breach of the implied covenant of good faith and fair dealing by the Company's subsidiary Proshred Franchising Corp. ("PFC"), (2) fraudulent misrepresentation by PFC, (3) negligent misrepresentation by PFC, and (4) violation of various state laws by PFC. These franchisees are located in Florida, North Carolina and Wisconsin. Subsequent to the period ended June 30, 2010, one additional franchisee located in New York State joined the aforementioned complaint.

The Company (including its subsidiary PFC) is strongly of the view that it (1) has not breached any contracts or agreements with its franchisees and has acted in good faith with all franchisees, (2) has not fraudulently misrepresented any franchisees, (3) has not negligently misrepresented any franchisees, and (4) has complied with all state laws as well as Federal Trade Commission rules and regulations regarding franchising.

The Company intends to vigorously defend against this unwarranted claim, however, the final outcome with the respect to this claim cannot be predicted nor can the costs to defend this claim be quantified with certainty and therefore there can be no assurance that its resolution will not have an adverse effect on the Company's consolidated financial position.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### 11 Financial risk management

The Company has various financial assets that consist of: cash, accounts receivable and notes receivables. The Company's financial liabilities include accounts payable, accrued liabilities and a line of credit.

The Company, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: interest rate risk, credit risk, liquidity risk and currency risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

#### **Interest rate risk**

The Company's cash earns interest at prevailing and fluctuating market rates. The fixed rate notes receivable from franchisees are subject to interest rate pricing risk, as the value will fluctuate as a result of changes in market rates.

The Company has a line of credit facility that has a fixed interest rate of 10% per annum; the Company has no other interest bearing debt.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### 11 Financial risk management (continued)

#### Credit risk

In accordance with its investment policy, the Company maintains cash deposits with Banks. The credit risk on cash is limited because the counterparties are banks with high-credit ratings assigned by international credit-rating agencies.

Receivables from franchisees:

The accounts receivable are exposed to credit risk from the possibility that franchisees may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one franchisee. Credit assessments are conducted with respect to all new franchisees and all existing franchisees. In addition, the receivable balances with franchisees are monitored on an ongoing basis with the result that the Company's exposure to bad debt is not significant. As of June 30, 2010, three franchisees accounted for 45% of the accounts receivable balance. For the six months ended June 30, 2010, three franchisees accounted for 31% of the Company's revenues. As of June 30, 2009, three franchisees accounted for 33% of the accounts receivable balance, and for the six months ended June 30, 2009 three franchisees accounted for 35% of revenues.

As of June 30, 2010, 19% of accounts receivable was over 90 days old and related to one franchisee.

Receivables from shredding customers:

The accounts receivable are exposed to credit risk from the possibility that customers may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one customer. All new customers are required to make payment for services by way of preapproved credit card, and credit is extended only after a credit assessment is conducted. In addition, the receivable balances with customers are monitored on an ongoing basis with the result that the Company's exposure to bad debt is not significant. As of June 30, 2010, no customer accounted for more than 10% of the accounts receivable balance. For the six months ended June 30, 2010, one customer accounted for more than 10% of the Company's revenues in this category.

As of June 30, 2010, all accounts receivable in this category were under 90 days old.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### 11 Financial risk management (continued)

#### Currency risk

The Company incurs revenue in US currency and has expenses in both US and Canadian currency, and as such, is subject to fluctuations as a result of foreign exchange rate variation.

The following financial instruments denominated in US funds have been translated at June 30, 2010 at an exchange rate of 1.0484 (December 31, 2009 - 1.0494):

	June 30, 2010	December 31, 2009
	\$	\$
Cash	330,552	239,726
Accounts receivable	207,373	246,253
Notes receivable from franchisees	150,927	156,495
Accounts payable and accrued liabilities	(129,414)	(90,251)

Since the Company's foreign subsidiaries are considered self-sustaining, unrealized foreign exchange fluctuations are recorded in accumulated other comprehensive income (loss) and are only recorded in net income once realized on liquidation of the subsidiary.

At June 30, 2010, and assuming that all other variables remain constant, a 10% rise or fall in the Canadian dollar against the US dollar would have resulted in approximately \$36,861 increase (decrease) in the income (loss) before taxes or in other comprehensive income (loss) for the year.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### 11 Financial risk management (continued)

#### Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet requirements. Based on overall cash generation capacity and overall financial position, while there can be no assurance, management believes the Company will be able to meet financial obligations as they come due, while maintaining compliance with all financial covenants. The accounts payable, accrued liabilities and income taxes payable of \$311,860 at June 30, 2010 (December 31, 2009 - \$340,021) are due to be settled within one year from balance sheet date.

The Company has access to a \$4 million line of credit, of which \$1.24 million has been utilized, to be used for acquisitions as well as general corporate purposes. This line of credit is secured by a general security agreement over the Company's assets.

#### Fair value of financial instruments

The carrying value amounts of many of the Company's financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities approximate their value due primarily to the short-term maturity of the related instruments. The fair value estimates of the Company's notes receivable from franchisees (note 4), are made as of a specific point in time based on estimates using present value or other valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. The carrying value of the Company's notes receivable from franchisees at June 30, 2010 amounted to \$194,219 (December 31, 2009 - \$207,583), with fair value estimated to amount to \$117,006 (December 31, 2009 - \$130,399).

#### Carrying value of financial instruments

	June 30, 2010	December 31, 2009
	\$	\$
Held-for-trading	1,197,803	1,086,036
Loans and receivables measured at amortized cost	378,118	485,814
Financial liabilities measured at amortized cost	(1,551,860)	(340,021)

### 12 Capital management

The Company defines capital as shareholders' equity. The primary objective of the Company's capital management is to ensure that it maintains a conservative capital ratio in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issue new shares or issue debt securities.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### 13 Segmented information

The Company operates two reportable operating segments, (1) the granting and managing of shredding business franchises under the "Proshred" trademark, and (2) the operating of corporately owned shredding businesses.

#### **Franchise business assets and liabilities:**

The franchise business has the following deployment of assets and liabilities geographically:

	June 30, 2010	December 31, 2009
	\$	\$
<b>Balance sheet items</b>		
<b>Canada</b>		
Cash	867,251	834,467
Accounts receivable	30,544	63,170
Other current assets	16,109	16,850
Equipment	116,082	204,998
Other intangible assets	2,032,041	2,164,569
Accounts payable	(182,446)	(249,770)
<b>United States</b>		
Cash	265,479	251,569
Accounts receivable	159,009	258,418
Notes receivable from franchisees	150,927	164,226
Other intangible assets	2,076,164	2,199,795
Accrued liabilities	(62,644)	(90,251)

#### **Corporate operations assets and liabilities:**

All assets involved in operating corporate locations reside in the United States; the line of credit facility used to fund the acquisitions resides in Canada:

	June 30, 2010	December 31, 2009
	\$	\$
<b>Balance sheet items</b>		
<b>Canada</b>		
Line of credit facility	(1,240,000)	-
<b>United States</b>		
Cash	65,073	-
Accounts receivable	48,364	-
Other current assets	9,063	-
Equipment	299,430	-
Other intangible assets	642,838	-
Accounts payable	(66,770)	-

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

### 13 Segmented information (continued)

#### Segmented statement of operations:

For the three months ended June 30, 2010				
	Franchising	Corporate location	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	235,092	100,685	-	335,777
Direct costs	-	(61,452)	-	(61,452)
Corporate overhead	(320,851)	(14,248)	(82,475)	(417,574)
Depreciation and amortization	(151,196)	(14,248)	-	(165,444)
Unrealized foreign currency gain (loss)	2,906	-	-	2,906
Interest expense	-	(9,198)	-	(9,198)
Interest income	1,006	-	-	1,006
Income tax (expense) recovery	13,148	-	-	13,148
Net loss	(219,894)	1,538	(82,475)	(300,831)

For the six months ended June 30, 2010				
	Franchising	Corporate location	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	477,105	100,685	-	577,790
Direct costs	-	(61,452)	-	(61,452)
Corporate overhead	(601,019)	(14,248)	(159,950)	(775,217)
Depreciation and amortization	(358,047)	(14,248)	-	(372,295)
Unrealized foreign currency gain (loss)	2,206	-	-	2,206
Interest expense	-	(9,198)	-	(9,198)
Interest income	2,544	-	-	2,544
Income tax (expense) recovery	29,148	-	-	29,148
Net loss	(448,062)	1,538	(159,950)	(606,474)

The corporate location was purchased on April 30, 2010; the operating results included are from May 1, 2010 to June 30, 2010. Corporate overhead represents wages and costs associated with public reporting and unallocated head office costs.

# RediShred Capital Corp.

## Notes to Unaudited Consolidated Financial Statements

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### 14 Related party balances and transactions

Mr. Mark MacMillan, a director of the Company, is the owner of the Tampa Bay, FL Proshred franchise. Included in accounts and notes receivable at June 30, 2010, is \$11,547 (December 31, 2009 - \$13,657) due from Mr. MacMillan's franchise. During the six months ended June 30, 2010, the Company earned royalty and service fees amounting to \$38,959 (June 30, 2009 - \$34,388).

Included in general, administrative and marketing expense for the three months ended March 31, 2010 are insurance premiums amounting to \$12,000 (June 30, 2009 - \$12,000) paid to Alfred J. Bell & Grant Ltd, a company owned by Mr. Phillip Gaunce, a director of the Company.

All related party transactions have been recorded at their exchange amounts.

### 15 Subsequent event

On July 26, 2010 the Company awarded the San Diego, CA franchise. The franchise consists of 2.9 territories. Training of the new franchisee is expected to be completed in August of 2010, with operations commencing in early fall 2010.

