RediShred Capital Corp.

Consolidated Audited Financial Statements
December 31, 2018
December 31, 2017 and
January 1, 2017

(expressed in Canadian dollars)

April 15, 2019

Management's Responsibility for the Financial Statements

The accompanying consolidated financial statements of **RediShred Capital Corp.** have been prepared by the Company's management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and contain estimates based on management's judgment. Internal control systems are maintained by management to provide reasonable assurances that assets are safeguarded and financial information is reliable.

The Board of Directors of the Company are responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements and the accompanying management discussion and analysis. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors. It meets with the Company's management and auditors and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the financial statements to the Board of Directors for approval.

Grant Thornton LLP, appointed as the Company's auditors by the shareholders, has audited these consolidated financial statements and their report follows.

(signed) "*Jeffrey Hasham*"
Chief Executive Officer
Mississauga, Ontario

(signed) "*Kasia Pawluk*"
Chief Financial Officer
Mississauga, Ontario

Independent auditor's report

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To the shareholders of RediShred Capital Corp.

Opinion

We have audited the consolidated financial statements of RediShred Capital Corp. which comprise the consolidated statements of financial position as at December 31, 2018 and 2017 and the consolidated statements of comprehensive income**,** consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, present fairly, in all material respects, the consolidated financial position of RediShred Capital Corp as at December 31, 2018 and 2017 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the RediShred Capital Corp. in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Scott Shannon, CPA, CA, CMA, and CBV.

Grant Thornton LLP

Mississauga Canada	Chartered Professional Accountants
April 15, 2019	Licensed Public Accountants

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at December 31, 2018 and 2017 and January 1, 2017

(expressed in Canadian dollars)

	December 31, 2018 $	December 31, 2017 Restated note 3 $	January 1, 2017 Restated note 3 $
Assets			
Current assets			
Cash and cash equivalents	8,830,669	2,245,533	1,046,896
Cash attributable to the Advertising Fund (note 5)	215,709	193,776	261,304
Income taxes receivable	–	–	21,457
Trade receivables (note 6)	1,461,562	972,987	878,243
Prepaid expenses	223,196	160,791	159,586
Notes receivable from franchisees (note 7)	47,496	84,988	89,429
Total current assets	10,778,632	3,658,075	2,456,915
Non-current assets			
Notes receivable from franchisees (note 7)	42,450	19,238	109,861
Tangible assets (note 9)	5,835,968	3,772,234	3,222,547
Intangible assets (note 10)	5,185,990	1,878,120	2,374,679
Goodwill (notes 11 and 12)	4,812,448	1,720,437	1,837,398
Deferred tax asset (note 22)	1,287,473	457,728	–
Total non-current assets	17,164,329	7,847,757	7,544,485
Total assets	27,942,961	11,505,832	10,001,400
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities (note 13)	1,411,280	728,143	808,581
Current portion of deferred revenue	236,821	218,352	366,380
Current income taxes payable (note 22)	53,543	51,193	–
Current portion of long-term debt (note 14)	1,253,723	1,114,882	5,619,461
Current portion of notes payable (note 15)	281,813	122,357	33,180
Current portion of contingent consideration (note 16)	253,180	44,790	33,568
Total current liabilities	3,490,360	2,279,717	6,861,170
Non-current liabilities			
Long-term debt (note 14)	3,184,768	2,522,261	2,050,369
Long-term deferred revenue	428,464	613,130	888,312
Long-term notes payable (note 15)	476,397	26,206	58,171
Long-term contingent consideration (note 16)	415,437	20,105	–
Deferred tax liability	–	–	207,044
Convertible debentures	–	–	352,176
Total non-current liabilities	4,505,066	3,181,702	3,556,072
Total liabilities	7,995,426	5,461,419	10,417,242
Shareholders’ equity (deficiency)			
Capital stock (note 18)	24,961,090	14,062,379	8,590,995
Contributed surplus	890,757	647,283	512,518
Accumulated foreign currency translation loss	(649,893)	(698,352)	(496,250)
Deficit	(5,254,419)	(7,966,897)	(9,023,105)
	19,947,535	6,044,413	(415,842)
Total liabilities and shareholders’ equity	27,942,961	11,505,832	10,001,400

Commitments (note 23)

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board of Directors

(signed) “*Phillip H. Gaunce*” Director

(signed) “*Brad Foster*” Director

RediShred Capital Corp.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(expressed in Canadian dollars)

	2018 $	2017 Restated note 3 $
Revenue (note 19)	14,660,333	11,946,372
Corporate operating locations expenses (note 20)	(7,606,345)	(5,721,359)
Depreciation – tangible assets	(1,175,673)	(969,287)
Selling, general and administrative expenses (note 21)	(3,538,489)	(3,080,144)
Total expenses	(12,320,507)	(9,770,790)
Operating income	2,339,826	2,175,582
Amortization – intangible assets	(526,907)	(973,812)
Foreign exchange gain (loss)	736,630	(293,047)
Transaction recovery (note 16)	45,891	–
Gain on sale of assets	7,814	3,450
Interest expense	(278,733)	(354,230)
Interest income	68,537	7,376
Income before income taxes	2,393,058	565,319
Income tax recovery (note 22)	319,420	490,889
Net income for the year	2,712,478	1,056,208
Other comprehensive income (loss)		
Foreign currency translation income (loss)	48,459	(202,102)
Comprehensive income for the year	2,760,937	854,106
Net income per share		
Basic	0.049	0.023
Diluted	0.048	0.022
Weighted average number of commons shares outstanding – basic	55,724,940	46,017,909
Weighted average number of commons shares outstanding – diluted	56,979,703	47,089,982

The accompanying notes are an integral part of these consolidated financial statements.

RediShred Capital Corp.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(expressed in Canadian dollars)

	Capital stock and warrants $ (note 18)	Contributed surplus $	Accumulated foreign currency translation loss $	Deficit $	Total shareholders' equity/(deficiency) $
Balance – December 31, 2016 – as previously stated	8,590,995	512,518	(496,250)	(8,088,745)	518,518
Adoption of new accounting policy – net of tax (Note 3)	–	–	–	(934,360)	(934,360)
Balance – January 1, 2017	8,590,995	512,518	(496,250)	(9,023,105)	(415,842)
Net income for the year	–	–	–	1,056,208	1,056,208
Other comprehensive loss					
Foreign currency translation loss	–	–	(202,102)	–	(202,102)
Comprehensive income for the year					854,106
Issue of shares (note 18)	4,860,869	(159,224)	–	–	4,701,645
Issue of warrants (note 18)	610,515	–	–	–	610,515
Stock-based compensation (note 18)	–	293,989	–	–	293,989
Balance – December 31, 2017	14,062,379	647,283	(698,352)	(7,966,897)	6,044,413
Net income for the year	–	–	–	2,712,478	2,712,478
Other comprehensive income					
Foreign currency translation income	–	–	48,459	–	48,459
Comprehensive income for the year					2,760,937
Issue of shares (note 18)	10,898,711	(4,664)	–	–	10,894,047
Stock-based compensation (note 18)	–	248,138	–	–	248,138
Balance – December 31, 2018	24,961,090	890,757	(649,893)	(5,254,419)	19,947,535

The accompanying notes are an integral part of these consolidated financial statements.

RediShred Capital Corp.

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(expressed in Canadian dollars)

Cash provided by (used in)	**2018 $**	**2017 (restated) $**
Operating activities		
Net income for the year	2,712,478	1,056,208
Items not affecting cash		
Amortization of equipment and intangible assets	1,702,581	1,943,099
Stock-based compensation	248,138	293,989
Unrealized foreign currency (gain) loss	(823,887)	350,632
Gain on sale of assets	(9,064)	(3,450)
Revaluation of contingent consideration	(44,641)	–
Deferred income tax recovery	(829,745)	(667,216)
	2,955,860	2,973,262
Net change in non-cash working capital balances		
(Increase) in trade receivables	(346,377)	(168,044)
(Increase) in prepaid expenses	(49,049)	(9,416)
(Decrease) in deferred revenue	(225,075)	(423,078)
Increase in accounts payable and accrued liabilities	616,116	9,675
Increase in income taxes payable	6,514	51,193
Decrease in income taxes receivable	–	20,779
Net cash from operations	2,957,989	2,454,371
Financing activities		
Borrowings from long-term debt	1,684,972	2,682,961
Repayment of long-term debt	(1,099,183)	(6,063,318)
Issuance of capital stock	10,894,046	4,301,335
Repayment of notes receivable from franchisees	21,895	85,161
Repayment of notes payable	(180,342)	(94,081)
Payment of contingent considerations	(208,163)	(130,199)
Net cash from financing activities	11,113,225	781,859
Investing activities		
Cash paid on acquisitions	(6,096,007)	(1,071,362)
(Increase) decrease in cash held by advertising fund	(5,196)	52,589
Proceeds from sale of assets	104,107	247,541
Purchase of equipment	(1,628,790)	(1,191,306)
Net cash from investing activities	(7,625,886)	(1,962,538)
Effect of foreign exchange rate changes on cash	139,808	(75,055)
Net change in cash for the year	6,585,136	1,198,637
Cash – Beginning of year	2,245,533	1,046,896
Cash – End of year	8,830,669	2,245,533
Supplementary cash flow information		
Interest received	17,205	7,376
Interest paid	278,733	354,230
Income tax paid	114,195	–

The accompanying notes are an integral part of these consolidated financial statements.

(expressed in Canadian dollars)

1 Corporate information and nature of operations

Redishred Capital Corp. ("Redishred" or the "Company") was incorporated under the Canada Business Corporations Act on October 18, 2006 and is domiciled in Canada. Redishred's common shares are listed for trading on the TSX Venture Exchange under the symbol "KUT". The registered address of the Company is 6505 Mississauga Road, Suite A, Mississauga, Ontario, L5N 1A6.

Redishred manages and operates the Proshred brand and business platform ("system") in the United States and internationally. Redishred operates the Proshred system under two business models, (1) franchising in the United States, (2) via direct ownership of shredding trucks and facilities in eight locations in the United States, as of December 31, 2018.

2 Basis of presentation

These annual consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Company has consistently applied the accounting policies used in the preparation of its IFRS statement of financial position at December 31, 2018 and 2017.

These consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as at December 31, 2018. Together, Redishred and its subsidiaries are referred to as "the Company."

The consolidated financial statements of the Company for the year ended December 31, 2018 were authorized for issue in accordance with a resolution of the Directors on April 10, 2019.

3 Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

Basis of measurement

These consolidated financial statements were prepared on a going concern basis, under the historical cost convention. The consolidated financial statements are presented in Canadian dollars, which is Redishred's presentation currency and functional currency.

Basis of consolidation

These consolidated financial statements include the accounts of Redishred and its subsidiaries, which are entities controlled by Redishred. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. All significant intercompany balances and transactions have been eliminated. Certain comparative figures have been reclassified to conform to the current year presentation.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

The Company's wholly-owned subsidiaries include:

Subsidiary name:	Incorporated in:	Functional currency:
Professional Shredding Corporation	Ontario, Canada	Canadian Dollar
Proshred Franchising Corp.	Delaware, United States	US Dollar
Redishred Holdings US Inc.	Delaware, United States	US Dollar
Redishred Acquisition Inc.	Delaware, United States	US Dollar
Proshred Charlotte Inc.	Delaware, United States	US Dollar

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and has been identified as the chief executive officer of Redishred.

New standards adopted during the year

IFRS 15 Revenue from Contracts with Customers

The Company applied new standard *IFRS 15, Revenue from Contracts with Customers*, ("IFRS 15"), for the first time for its annual reporting period commencing January 1, 2018, using the full retrospective method. The new standard changes the timing of recognition of initial franchise, license and renewal fees. These fees were previously recognized as revenue upfront when the franchise or license agreement was fully executed. Under IFRS 15, the Company's performance obligations under the franchise and license agreements include a franchise license and prescribed training and other pre-opening services. These obligations are highly interrelated and the Company has identified one distinct performance obligation which it is satisfying over the term of the franchise agreement. As a result, these fees are recognized as revenue over the related term.

The transition to IFRS 15 also requires the consolidation of the advertising fund contributions and related expenses on a gross basis. As the Company controls the advertising services prior to delivery of those services to the franchisees, the revenue and expenses are reported on a gross basis. Previously, the revenue, expenses and cash flows of the Advertising fund were reported on a net basis and not included in the Company's statements of income.

The adoption of IFRS 15 had no net impact on the Company's cash provided by operating activities, cash used in investing activities or cash provided by financing activities during the year.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

The cumulative effect of the changes made to the consolidated statement of financial position as at **January 1, 2017** related to the adoption of IFRS 15 was as follows:

	Previously reported	Restated	Increase (Decrease)
Liabilities	**$**	**$**	**$**
Accounts payable and accrued liabilities	1,128,913	808,581	(320,332)
Deferred revenue	–	1,254,692	1,254,692
Shareholders' Deficiency			
Accumulated deficit	(8,088,745)	(9,023,105)	934,360

The cumulative effect of the changes made to the consolidated statement of financial position as at **December 31, 2017** related to the adoption of IFRS 15 was as follows:

	Previously reported	Restated	Increase (Decrease)
Liabilities	**$**	**$**	**$**
Accounts payable and accrued liabilities	913,594	728,143	(185,451)
Deferred revenue	–	831,615	831,615
Shareholders' Deficiency			
Accumulated deficit	(7,271,895)	(7,966,897)	695,002
Accumulated foreign currency translation loss	(747,323)	(698,352)	(48,971)

The cumulative effect of the changes made to the consolidated statement of comprehensive income for the year ended **December 31, 2017** related to the adoption of IFRS 15 was as follows:

	Previously reported	Restated	Increase (Decrease)
Revenue	**$**	**$**	**$**
Franchise fees	6,500	361,228	354,728
Advertising fund contributions	–	255,145	255,145
Expenses			
Advertising fund expenses	–	370,515	370,515
Net income for the year	816,850	1,056,208	239,358

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

New standards adopted during the year (continued)

IFRS 9 Financial Instruments

The IASB published IFRS 9 *Financial Instruments* which replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 defines new requirements for the classification and measurement of financial assets and liabilities, the impairment of financial assets and the application of hedge accounting.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value and eliminates the held to maturity, available for sale and loans and receivable categories previously allowed under IAS 39. Trade and other receivables that were previously classified as loans and receivables under IAS 39 are classified as financial assets at amortized costs under IFRS 9. The change in classification under IFRS 9 has not resulted in changes in the carrying amounts.

The Company assessed that no adjustments were required to the carrying amounts of financial assets and financial liabilities upon adoption. The new standard also includes a new expected credit loss model for calculating impairment of financial assets. This change did not impact the consolidated financial statements given the risk management practices the Company has in place.

Application of IFRS 9 has no impact on the Company's financial position or results of operations and there is no financial impact that requires disclosure.

Foreign currency translation

The Company's functional currency is the Canadian dollar and the Company has elected to use the Canadian dollar as its presentation currency. The functional currency of the Company's foreign subsidiaries, Proshred Franchising Corp. ("PFC"), Redishred Holdings US Inc. ("RHI"), Redishred Acquisition Inc. ("RAI") and Proshred Charlotte Inc. ("PCI") is the US dollar, as it is the currency of the primary economic environment in which they operate. These consolidated financial statements have been translated to the Canadian dollar in accordance with *IAS 21, The Effects of Changes in Foreign Exchange Rates*.

The financial statements of subsidiaries that have a functional currency different from that of Redishred Capital Corp. ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities - at the closing rate at the date of the statements of financial position, and income and expenses - at the average rate of the period (as this is considered a reasonable approximation of actual rates prevailing at the transaction dates). All resulting changes are recognized in other comprehensive income (loss) as foreign currency translation adjustments.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the statement of comprehensive income (loss).

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Cash and cash equivalents

The Company's cash balances are held in bank accounts in Canada and the United States, which the Company has full access to. The Company also has a $7.3M redeemable Guaranteed Investment Certificate (GIC) held with the Scotiabank. The GIC has tiered interest rates between 1.65% to 2.50% per annum. Refer to note 26 for cash and cash equivalent balances by operating segment.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial instruments are classified in one of the following categories: (1) amortized cost, (2) fair value through comprehensive income or (3) fair value through profit and loss ("FVTPL"). Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires. Transaction costs in respect of an asset or liability not recorded at fair value through net earnings are added to the initial carrying amount. Transaction costs relating to the issuance of the senior credit facility obtained on July 28, 2017 are amortized over the term of the facility, which expires on July 28, 2022. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

i) Financial assets at amortized cost

The Company's financial instruments categorized as financial assets at amortized cost are comprised of cash and cash equivalents, cash attributable to the Advertising Fund, trade receivables and notes receivable from franchisees. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, these instruments are accounted for at amortized cost using the effective interest rate method less a provision for impairment.

ii) Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable, accrued liabilities, notes payable, and long-term debt. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Long-term debt and notes payable are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. They are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

iii) Fair Value Through Profit and Loss ("FVTPL")

Financial liabilities at FVTPL include contingent consideration. These financial instruments are measured at fair value with changes in fair values recognized in profit or loss.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired.

The criteria used to determine if objective evidence of an impairment loss exists include:

(i) significant financial difficulty of the obligor;

(ii) delinquencies in interest or principal payments; and

(iii) if it becomes probable that the borrower will enter bankruptcy or other financial reorganization.

If such evidence exists, the Company recognizes an impairment loss as follows:

Financial assets carried at amortized cost: The impairment loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Equipment and depreciation

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost consists of expenditures directly attributable to the acquisition of the asset including costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Maintenance and repair costs are expensed as incurred.

Depreciation is provided for on a straight-line basis over the estimated useful lives of the assets as follows:

Computer equipment	2-5 years
Furniture and fixtures	3 years
Bins and shredding containers	5 years
Shredding vehicles – chassis	3-10 years
Shredding vehicles – box	3-10 years
Recycling equipment	5 years
Vehicles	3-5 years

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Equipment and depreciation (continued)

The Company allocates the amount initially recognized in respect of an item of equipment to its significant parts and depreciates separately each such part. The estimated useful lives and amortization method are reviewed annually, with the effect of any changes in estimate accounted for on a prospective basis.

Intangible assets and amortization

The Company's identifiable intangible assets are stated at cost less accumulated amortization and impairment losses, if any. These assets are capitalized and amortized on a straight-line basis in the statement of comprehensive income over their estimated useful lives. The re-acquired franchise rights are amortized over the remaining term of the initial Franchise Agreements.

The estimated useful lives of these assets are as follows:

Trademarks and intellectual property	10 years
Franchise agreements	10 years
Re-acquired franchise rights	½-8 years
Proshred system	10 years
Customer relationships	10 years

The assessment of the useful lives of the identifiable intangible assets is reviewed annually. Changes in useful lives or the useful life from indefinite to finite are made on a prospective basis.

Goodwill represents the excess of the cost of the business acquisition over the fair value of the Company's share of the identifiable net assets of the acquired business at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses, if any. The Company does not have any accumulated impairment losses. Goodwill is allocated on the date of acquisition to each cash-generating unit ("CGU") or group of CGUs that are expected to benefit from the related business combination.

Impairment of non-financial assets

Equipment and identifiable definite life intangible assets (other than goodwill) are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGUs"). An impairment loss is recognized when the carrying value of an asset or CGU exceeds the recoverable amount. The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs of disposal. In assessing value-in-use and fair value less costs of disposal, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Impairment of non-financial assets (continued)

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. Impairment of goodwill is tested at a level where goodwill is monitored for internal management purposes. Therefore, goodwill may be assessed for impairment at the level of either an individual CGU or a group of CGUs which are expected to benefit from the synergies of the combination. The carrying amount of a CGU is compared to its recoverable amount, which is the higher of its value-in-use or fair value less costs of disposal, to determine if impairment exists.

Impairment losses are recognized in the statement of comprehensive income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. Impairment losses for assets other than goodwill are reversed in future periods if the circumstances that led to the impairment no longer exist. The reversal is limited to restoring the carrying amount such that it does not exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized in prior periods.

Income tax

Income tax comprises current and deferred income tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive loss or equity, respectively.

(i) Current income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

(ii) Deferred income taxes

Deferred income taxes are provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, except where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income taxes are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position. Deferred income tax assets and liabilities are presented as non-current and determined on a non-discounted basis. Deferred income tax assets are recognized only to the extent that it is considered probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilized. The carrying value of deferred income tax assets are reviewed at the end of each reporting period and increased or reduced to the extent it is determined probable that sufficient taxable profits will, or will not, be available to allow all or part of the income tax asset to be recovered.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Revenue recognition

(i) Franchising and licensing business

The Company earns revenue from initial franchise and license fees paid to secure territories for a specific period and from royalties, license and service fees paid as a percentage of the franchisees' monthly sales volumes. The initial franchise or license fee is recognized as revenue over the term of the related franchise or license agreement on a straight-line basis. Royalties, license and service revenue is accrued monthly based on sales reported by franchisees or licensees if collection is reasonably assured. Interest income on notes receivable is recognized in the month earned. Advertising fund contributions are recognized as revenue when received on a monthly basis.

(ii) Corporate operations – shredding, destruction and recycling services

The Company earns revenue from providing shredding and destruction services to clients and by way of the sale of paper to recycling facilities. Shredding and destruction service revenue is recorded when the service has been performed, the Company has provided a certificate of destruction and an 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.

Share-based payments

The Company issues share-based awards to certain employees and non-employee directors whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is recognized, together with a corresponding increase in contributed surplus in equity, over the period in which the performance and/or service conditions are fulfilled. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option-pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. This number is reviewed at least annually, with any changes in estimate recognized immediately in compensation expense with a corresponding adjustment to contributed surplus.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award. All cancellations of equity-settled transaction awards are treated equally.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Business combinations

Acquisitions of businesses (other than entities which were under the control of the parent) are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, *Business Combinations* are recognized at their fair value at the acquisition date.

Earnings per share

Basic earnings per share is computed by dividing net income for the year attributable to equity owners of the Company by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments such as options and warrants. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method.

Accounting standards and amendments issued but not yet effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company. Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 which replaces IAS 17 or the accounting of leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16: changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods; changes the accounting for sale and leaseback arrangements; largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements.

This standard is effective for annual reporting periods beginning on or after January 1, 2019. The Company has completed the assessment of its real estate leases and will recognize additional right of use assets and lease liabilities. The Company will also have a decrease in lease expenses and a corresponding increase in depreciation expense and interest expense.

The Company expects to adopt IFRS 16 using the modified restrospective approach using practical expedients, as permitted, which do not require the restatement of prior period financial information. The quantitative impact of adoption IFRS 16 will be provided in the Company's 2019 first quarter report.

(expressed in Canadian dollars)

4 Critical accounting estimates and judgements

The preparation of financial statements requires management to use judgment in applying its accounting policies and in developing estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from those estimates and assumptions. These estimates and underlying assumptions are reviewed on an ongoing basis and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The following discusses the most significant accounting judgements and estimates that the Company has made in the preparation of the financial statements.

Significant accounting judgements

i) Functional currency

The determination of Redishred and its subsidiaries' functional currency requires judgment. In determining the functional currency, management looks to various factors which include the economic environment in which the entity operates as well as other primary and secondary factors.

Significant accounting estimates

i) Impairment

The Company reviews goodwill at least annually and other non-financial assets when there is any indication that the asset might be impaired. The determination of the value in use and fair value of a CGU to which goodwill is allocated to involves the use of estimates by management. These estimates, including the methodology used, can have a material impact on the respective values and ultimately the amount of any impairment or reversal of impairment. Refer to note 12 for estimates and assumptions made.

ii) Deferred income taxes

The Company, including its subsidiaries, operate and earn income in multiple countries and is subject to changing tax laws in multiple jurisdictions within these countries. Significant judgements are necessary in determining income tax assets and liabilities. Although management believes that it has made reasonable estimates about the final outcome of tax uncertainties, no assurance can be given that the final outcome of these tax matters will be consistent with what is reflected in the historical income tax provisions. Such differences could have an effect on the deferred tax assets and liabilities in the period in which such determinations are made. At each date of statement of financial position, the Company assesses whether the realization of future tax benefits is sufficiently probable to recognize deferred tax assets.

This assessment requires the exercise of judgement on the part of management with respect to, among other things, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The recorded amount of total deferred tax assets and liabilities could be materially affected if changes in current tax regulations are enacted. Refer to note 22 for estimates and assumptions used.

(expressed in Canadian dollars)

4 Critical accounting estimates and judgements (continued)

Significant accounting estimates (continued)

iii) Useful lives of tangible and intangible assets

Management estimates the useful lives of tangible and definite life intangible assets based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of these assets for any period are affected by these estimated useful lives. On an annual basis, the Company assesses the useful lives of its tangible and intangible assets with definite lives and the useful lives updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's tangible and definite life intangible assets in the future. Refer to note 9 and 10 for estimates and assumptions used.

5 Advertising fund

The Company manages an advertising fund (the "Ad Fund") established to collect and administer funds contributed for use in regional and national advertising programs, and amongst other things, initiatives designed to increase sales and enhance general public recognition, acceptance and use of the Proshred System. Contributions to the Ad Fund are required to be made from both franchised and Company owned and operated locations and are based on the annual level of revenue from each location.

The Company has adopted IFRS 15 using the full retrospective transition method. The transition to IFRS 15 requires the presentation of the advertising contributions as revenue with the related expenses on a gross basis. As a result, advertising contributions for the year ended December 31, 2018 are $253,697 with related expenses of $342,409. As at December 31, 2018, the cash attributable to the Ad Fund amounted to $215,709 (December 31, 2017 - $193,776).

6 Trade receivables

Trade receivables include receivables from franchisees and receivables from shredding and recycling customers. Other receivables include receivables related to Harmonized sales tax ("HST") refunds. The net trade and other receivables as at December 31, 2018 are as follows:

	2018	2017
	$	$
Trade receivables	1,395,888	975,206
Other receivables	68,081	–
Less: Allowance for doubtful accounts	(2,407)	(2,219)
Trade receivables – net	1,461,562	972,987

(expressed in Canadian dollars)

7 Notes receivable from franchisees

Notes receivable arise from the financing of the initial franchise fee by franchisees and are guaranteed by the respective owners of the franchises. Notes receivable also arise from the sale of customer assets to franchisees when the customer assets are located in a franchisees territory. The notes receivable bear interest rates ranging from 4.25% to 5.35% per annum with monthly blended payments of principal and interest ranging from US$595 to US$3,600. The payments on the notes commenced between dates ranging from January 1, 2014 to July 1, 2018 and mature between dates ranging from January 1, 2019 to June 1, 2021.

The notes receivable as at December 31, 2018 are as follows:

	2018	2017
	$	$
Principal	89,946	104,226
Less: Current portion	(47,496)	(84,988)
	42,450	19,238

At December 31, 2018, there were no notes receivable that were past due from franchisees. The Company has the right to charge additional interest as a penalty if the franchisee is in default on its payments.

8 Acquisitions

The Company completed the following acquisitions during the year:

1. On April 2, 2018, the Company acquired the Shred Con business located in Up-State New York. Included in the purchase was an investment of 50% in a Company called, Baling Green Recycling LLC, which bales the shredded paper of Shred Con. On April 30, 2018, Redishred acquired the remaining 50% of Baling Green Recycling, LLC.
2. On June 8, 2018, the Company acquired the On Guard Shredding business located in New York City. On June 11, 2018, the Company sold the customer assets located in Southern New Jersey to its Southern New Jersey franchisee for US$79,000.
3. On October 1, 2018, the Company acquired the Safe Shredding business located in North New Jersey.

The Company conducted the acquisitions to increase its long-term cash flows and to increase its market share in the New York and New Jersey markets.

The purchase price of each acquisition was allocated to the assets acquired (including all intangible assets arising from the purchase) and liabilities assumed based on their estimated fair value at the date of each acquisition. The Company translated the fair values of all assets acquired, liabilities assumed and consideration given using the exchange rate on the date of the acquisitions. On December 31, 2018, the assets and liabilities acquired are converted at the year-end rate at $1USD = 1.3638CAD in the Statement of Financial Position.

(expressed in Canadian dollars)

8 Acquisitions (continued)

The following table outlines the total amounts of the assets purchased and the consideration given on the closing date of the acquisitions in aggregate.

	New York	New Jersey	Total
Exchange rate used	1.29	1.28	
Assets acquired			
Net Working capital	25,800	160,000	185,800
Tangible assets	265,740	1,007,059	1,272,799
Customer relationships	980,400	2,562,515	3,542,915
Goodwill	95,460	2,670,426	2,765,886
	1,367,400	6,400,000	7,767,400
Consideration given			
Cash	1,212,600	4,234,941	5,447,541
Note payable (note 15)	25,800	704,000	729,800
Contingent consideration (note 16)	129,000	640,000	769,000
Truck financing	-	373,059	373,059
Common shares	-	448,000	448,000
	1,367,400	6,400,000	7,767,400
Acquisition costs (expensed in statement of comprehensive income)	23,873	29,502	53,375

As part of the Shred Con purchase price, the Company issued a note payable of US$20,000, with monthly payments of US$880 over a 24 month period. As part of the Safe Shredding purchase price, the Company issued a note payable of US$550,000, with monthly payments of US$16,484 over a 36 month period. The Company recorded the notes payable at fair value in accordance with IFRS 9 *Financial Instruments.* Subsequent to the acquisition date, the Company has measured the notes payable at amortized cost using the effective interest method.

The contingent consideration liabilities related to the acquisitions are tied to the retention of clients and revenue over a period of time post acquisition as follows:
(i) a 6-month period for the On Guard Shredding acquisition;
(ii) a 12-month period for the Shred Con acquisition; and
(iii) a 36-month period for the Safe Shredding acquisition.

The fair values of the assets were determined on the basis of observable market prices, where possible. The fair values of the customer relationships were determined by estimating the discounted level of future cash flows anticipated from the recurring customer relationships purchased.

The pro forma consolidated results of the Company, as if the acquisitions had been made at the beginning of the year, would result in estimated revenue of $18,000,000 (compared to reported revenue of $14,660,333) and estimated net income of $3,300,000 (compared to reported net income of $2,644,642). In preparing the pro forma results, revenue and costs have been included as if the business was acquired on January 1, 2018 and intercompany transactions had been eliminated. This information is not necessarily indicative of the results of the Company that would have occurred had the purchases actually been made at the beginning of the period presented or indicative of the future results of the Company.

(expressed in Canadian dollars)

9 Tangible assets

Cost	**Computer equipment**	**Furniture & fixtures**	**Bins & shredding containers**	**Shredding vehicles - chassis**	**Shredding vehicles - box**	**Vehicles**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
As at January 1, 2017	206,455	106,935	560,763	1,194,219	2,890,634	78,453	5,037,459
Additions	44,901	40,284	71,033	258,590	723,099	24,446	1,162,353
Sale of assets	(219)	(343)	-	(70,212)	(178,490)	-	(249,264)
Acquisitions	3,325	3,325	83,339	227,656	447,574	13,300	778,519
Foreign exchange	(5,446)	(1,457)	(36,307)	(100,836)	(241,251)	(4,673)	(389,970)
As at December 31, 2017	249,016	148,744	678,828	1,509,417	3,641,566	111,526	6,339,097
Additions	39,072	13,217	147,343	499,861	999,271	5,874	1,704,638
Sale of assets	-	-	(9,513)	-	-	(8,606)	(18,119)
Acquisitions (note 8)	863	-	173,202	345,720	709,799	43,215	1,272,799
Foreign exchange	10,177	4,400	58,362	136,989	345,517	8,477	563,922
As at December 31, 2018	299,128	166,361	1,048,222	2,491,987	5,696,153	160,486	9,862,337

Accumulated depreciation	**Computer equipment**	**Furniture & fixtures**	**Bins & shredding containers**	**Shredding vehicles - chassis**	**Shredding vehicles - box**	**Vehicles**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
As at January 1, 2017	170,128	92,033	351,158	310,950	821,346	69,297	1,814,912
Depreciation	39,825	13,953	94,168	234,065	545,109	19,107	946,227
Sale of assets	-	-	-	(21,987)	(51,278)	-	(73,265)
Foreign exchange	(3,627)	(868)	(22,929)	(26,415)	(63,527)	(3,645)	(121,011)
As at December 31, 2017	206,326	105,118	422,397	496,613	1,251,650	84,759	2,566,863
Depreciation	43,816	17,566	123,090	303,594	707,874	36,866	1,232,806
Foreign exchange	6,752	1,482	40,515	50,936	120,847	6,168	226,700
As at December 31, 2018	256,894	124,166	586,002	851,143	2,080,371	127,793	4,026,369
Net book value							
As at December 31, 2017	42,690	43,626	256,431	1,012,804	2,389,916	26,767	3,772,234
As at December 31, 2018	42,234	42,195	462,220	1,640,844	3,615,782	32,693	5,835,968

The foreign exchange adjustment is a result of the translation of corporate equipment from US dollar functional currency in the acquiring company to Canadian presentation dollars at December 31, 2018 and December 31, 2017.

(expressed in Canadian dollars)

10 Intangible assets

Cost	Franchise agreements	Proshred system	Trademarks & intellectual property	Computer software	Re-acquired franchise rights	Customer relationships	Total
	$	$	$	$	$	$	$
As at January 1, 2017	3,119,639	978,000	1,672,500	–	1,272,879	2,738,080	9,781,098
Acquisitions	–	–	–	–	45,661	598,500	644,161
Removal of original franchise agreement	(220,759)	–	–	–	–	–	(220,759)
Foreign exchange	(248,352)	–	–	–	(83,718)	(207,612)	(539,682)
As at December 31, 2017	2,650,528	978,000	1,672,500	–	1,234,822	3,128,968	9,664,818
Acquisitions (note 5)	–	–	–	–	–	3,542,915	3,542,915
Additions	–	–	–	21,821	–	–	21,821
Sale of assets (note 5)	–	–	–	–	–	(90,300)	(90,300)
Foreign exchange	340,436	–	–	–	52,064	500,965	893,465
Fully depreciated	(2,990,964)	(978,000)	(1,672,500)	–	(1,286,886)	–	(6,928,350)
As at December 31, 2018	–	–	–	21,821	–	**7,082,548**	**7,104,369**

Accumulated amortization	Franchise agreements	Proshred system	Trademarks & intellectual property	Computer software	Re-acquired franchise rights	Customer relationships	Total
	$	$	$	$	$	$	$
As at January 1, 2017	2,782,612	863,891	1,477,365	–	1,174,277	1,108,274	7,406,419
Amortization	187,035	97,800	167,244	–	131,269	295,602	878,950
Removal of original franchise agreement	(196,505)	–	–	–	–	–	(196,505)
Foreign exchange	(156,852)	–	–	–	(74,950)	(70,364)	(302,166)
As at December 31, 2017	2,616,290	961,691	1,644,609	–	1,230,596	1,333,512	7,786,698
Amortization	32,584	16,309	27,891	4,546	3,743	467,052	552,125
Foreign exchange	342,090	–	–	–	52,547	113,269	507,906
Fully depreciated	(2,990,964)	(978,000)	(1,672,500)	–	(1,286,886)	–	(6,928,350)
As at December 31, 2018	–	–	–	4,546	–	**1,913,833**	**1,918,379**
Net book value							
As at December 31, 2017	34,238	16,309	27,891	–	4,226	1,795,456	1,878,120
As at December 31, 2018	–	–	–	17,275	–	**5,168,715**	**5,185,990**

The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at December 31, 2018 and December 31, 2017. Amortization of intangible assets for the period is included in the statement of comprehensive income. The Company's franchise agreements, customer lists and re-acquired franchise rights are attributed to the Company's franchises and corporately owned locations in the US.

(expressed in Canadian dollars)

11 Goodwill

The following table presents goodwill for the years ended December 31, 2018 and 2017:

	2018	2017
	$	$
Opening balance	1,720,437	1,837,398
Acquisitions (note 8)	2,765,886	–
Foreign currency translation	326,125	(116,961)
Closing balance	4,812,448	1,720,437

12 Impairment of goodwill and long-lived assets

The Company performs an impairment test of long-lived assets when there is an indication of permanent impairment, which includes indicators such as when actual sales are less than budgeted, profits are less than prior years' profits, and when significant events and circumstances indicate that the carrying amount may not be recoverable. There were no indications of permanent impairment of the Company's long-lived assets during the year ended December 31, 2018. Goodwill is tested for impairment at least annually.

The Company has identified each corporate location as being a CGU and has grouped all franchisees as one CGU. The Company's corporate assets consist of computer equipment, furniture, computer software, the Proshred system, trademarks and intellectual property. The corporate assets are allocated to each CGU based on the number of territories.

The Company performed its annual test for goodwill impairment in accordance with its policy described in note 3. The Company compared the recoverable amount of the assets included in the CGUs of the corporate locations that have goodwill to their respective carrying amounts. The recoverable amount of the corporate location CGU's were more than the carrying amounts. Based on sensitivity analysis, a reasonably possible change in assumptions would not cause an impairment loss.

The carrying value of goodwill for each CGU is identified as follows:

Cash Generating Unit	2018	2017
	$	$
Syracuse	177,636	163,726
Albany	123,536	114,176
Milwaukee	876,250	807,630
New York City	789,771	634,905
North New Jersey	2,845,255	–
Total goodwill	4,812,448	1,720,437

The recoverable amount of each CGU has been determined based on a value-in-use calculation. The value-in-use calculation uses cash flow projections based on financial budgets approved by management.

(expressed in Canadian dollars)

12 Impairment of goodwill and long-lived assets (continued)

The key assumptions included the following:

i. Pre-tax discount rates ranging from 26% to 30% (December 31, 2017 – 26% to 30%) were used and reflects the risks specific to each CGU.

ii. A 5 year cash flow period was used based on financial budgets approved by management including growth rates of 2% to 10% and a perpetual growth rate of 2.5%. Revenue growth was determined based on the Company's internal budget and considered past experience.

iii. Budgeted-operating margins, which were determined using operating margins achieved in the prior year period. Management believes the operating margins are reasonably achievable.

13 Accounts payable and accrued liabilities

As at December 31, 2018 and December 31, 2017, accounts payable and accrued liabilities are comprised of:

	2018	2017 (restated)
	$	$
Accounts payable	495,068	200,831
Accrued liabilities	916,212	527,312
Total accounts payable and accrued liabilities	1,411,280	728,143

14 Long-term debt

As at December 31, 2018 and December 31, 2017, long-term debt is comprised of:

	2018	2017
	$	$
Bank indebtedness	1,438,166	1,839,515
Less: transaction costs	(116,402)	(148,887)
Net bank indebtedness (i)	1,321,764	1,690,628
Truck loans (ii)	2,041,740	1,628,831
Finance lease liability (iii)	1,074,987	317,684
Total long-term debt	4,438,491	3,637,143
Less: current portion	(1,253,723)	(1,114,882)
Total	3,184,768	2,522,261

(expressed in Canadian dollars)

14 Long term debt (continued)

(i) *Bank indebtedness*

The Company has the following secured senior credit facilities:

1. An operating demand loan of $1 million bearing interest at prime rate plus 1.7% and;
2. A non-revolving term loan in the amount of $3 million with an amortization period of 60 months from the date of drawdown, bearing interest at prime rate plus 2.5%.

As at December 31, 2018, Bank of Montreal has advanced $2 million on the non-revolving term loan, of which the balance is $1,438,166, at December 31, 2018. The Company has not received an advance on the operating demand loan as at December 31, 2018 (no advance – December 31, 2017).

Borrowings under the operating line of credit are limited by standard borrowing base calculations based on accounts receivable, which are typical for bank credit facilities. $250,000 of the operating line of credit is permanently available.

The credit facilities are secured by a general security agreement over all present and future assets of the Company and shares of each subsidiary held by the Company.

The bank credit facilities contain financial covenants that require the Company to maintain certain financial ratios and meet certain financial thresholds. In particular, the facility contains covenants that require the Company to maintain the following:

1. A minimum fixed charge coverage ratio of 1.25:1 which is defined as earnings before interest, taxes, depreciation and amortization (“EBITDA”) less cash taxes and unfunded capital expenditures to total principal and interest repayments;
2. A maximum senior funded debt to EBITDA ratio of 2.25:1 which is defined as total senior debt divided by EBITDA;
3. A maximum total funded debt to EBITDA ratio of 2.50:1 which is defined as total debt to EBITDA;
4. Capital expenditures are not to exceed $1.5 million in any fiscal year ($1 million – December 31, 2017); and
5. Unfunded capital expenditures are not to exceed $250,000 in any fiscal year.

The ratio covenants are measured at the end of each quarter on a trailing 12 month basis. As at December 31, 2018, the Company was in compliance with all of the banking covenants.

The Company has also established a $1.7 million USD line of credit for the purchase of shredding vehicles with BMO Transportation Finance in the United States. The line of credit is open for one year, until November 2019 when an annual credit review is completed. The interest rate is based on prevailing market rates at the time the line is used. The Company has received an advance of US$550,604 during the year ended December 31, 2018, which is included in the truck loans balance. The Company has US$1,149,396 available for use on the line of credit as at December 31, 2018.

(expressed in Canadian dollars)

14 Long term debt (continued)

(ii) Truck loans

The loans noted below are secured by shredding vehicles. The information presented is as at December 31, 2018:

Origination	Initial amount	Payment [(1)]	Interest per annum	Asset carrying value	Loan value	Maturity
June 23, 2015	US$229,039	US$4,520	6.75%	CAD$203,710	CAD$105,165 US$77,112	June 23, 2020
July 22, 2015	US$300,000	US$7,283	7.50%	CAD$194,384	CAD$67,803 US$49,716	July 22, 2019
July 5, 2016	US$176,546	US$3,904	6.40%	CAD$194,305	CAD$105,431 US$77,307	September 5, 2020
September 5, 2016	US$381,572	US$7,392	5.95%	CAD$504,261	CAD$297,277 US$217,977	August 5, 2021
March 22, 2017	US$170,581	US$3,282	5.71%	CAD$284,085	CAD$158,762 US$116,411	March 22, 2022
May 3, 2017	US$230,956	US$4,465	5.99%	CAD$276,556	CAD$225,288 US$165,191	May 5, 2022
May 4, 2017	US$236,456	US$4,549	5.71%	CAD$283,232	CAD$230,439 US$168,846	May 4, 2022
April 3, 2018	US$227,137	US$4,331	5.39%	CAD$295,066	CAD$273,151 US$200,287	April 3, 2023
September 1, 2018	US$215,596	US$4,140	5.63%	CAD$283,164	CAD$277,453 US$203,441	August 20, 2023
December 11, 2018	US$220,685	US$4,250	5.75%	CAD$302,148	CAD$300,971 US$220,685	December 11, 2023
Total truck loans					CAD$2,041,740 US$1,496,973	

(1) Blended monthly payments of principal and interest.

(expressed in Canadian dollars)

14 Long term debt (continued)

(iii) Finance lease liability

During the year ended December 31, 2018, the Company refinanced three older finance leases for a 36 month term at a reduce interest rate of 6.50% per annum. The leases noted below are secured by shredding vehicles. The information presented is as at December 31, 2018:

Origination	Initial amount	Payment (1)	Interest per annum	Asset carrying value	Loan value	Residual (2)	Maturity
August 5, 2018	US$54,814	US$1,556	6.50%	CAD$3,225	CAD$66,394 US$48,683	US$8,692	August 5, 2021
August 20, 2018	US$46,177	US$1,304	6.50%	CAD$60,009	CAD$56,078 US$41,119	US$7,252	August 20, 2021
August 20, 2018	US$95,948	US$2,576	6.50%	CAD$142,607	CAD$116,533 US$85,447	US$14,400	August 20, 2021
September 10, 2018	US$7,902	US$276	6.21%	CAD$8,822	CAD$10,415 US$7,637	US$882	September 10, 2021
October 2, 2018	US$119,553	US$3,329	5.95%	CAD$218,824	CAD$151,132 US$110,817	US$12,000	October 2, 2021
October 2, 2018	US$171,000	US$3,105	5.95%	CAD$224,881	CAD$223,284 US$163,722	US$49,000	October 2, 2022
October 2, 2018	US$175,463	US$3,865	5.95%	CAD$230,141	CAD$231,493 US$169,741	US$18,500	October 2, 2022
October 2, 2018	US$171,000	US$3,106	5.95%	CAD$224,881	CAD$219,658 US$163,850	US$49,000	October 2, 2022
Total finance lease liability					CAD$1,074,987 US$791,016		

(1) Blended monthly payments of principal and interest.
(2) The loan value includes the residual value.

(expressed in Canadian dollars)

14 Long term debt (continued)

(iii) Finance lease liability (continued)

Future minimum finance lease payments at December 31, 2018, stated in Canadian dollars, were as follows:

	2019 $	2020 $	2021 $	2022 $	Total $
Lease payments	287,114	312,915	316,093	299,219	1,215,341
Finance charges	(56,125)	(45,082)	(27,556)	(11,591)	(140,354)
Net present values	230,989	267,833	288,537	287,628	1,074,987

The future minimum lease payments have been translated at the closing rate at December 31, 2018 using an exchange rate of USD$1.00 = CAD$1.3638.

(iv) Related party line of credit

The Company has a related party line of credit facility for a maximum amount of $2.0 million. The line of credit facility matures on July 16, 2022 and bears interest at a fixed rate of 10% per annum. The line of credit is secured by a second in priority general security agreement over the Company's assets. As at December 31, 2018, the facility has not been drawn upon.

Long-term debt principal repayments (excluding finance lease liabilities) as at December 31, 2018, stated in Canadian dollars, are as follows:

	2019 $	2020 $	2021 $	2022 $	2023 $	Total $
Principal repayments	1,036,883	950,460	854,893	502,507	135,163	3,479,906

The long-term debt principal repayments have been translated at the closing rate at December 31, 2018 using an exchange rate of USD$1.00 = CAD$1.3638.

15 Notes payable

As at December 31, 2018, notes payable is comprised of:

Origination	Initial amount	Payment (1)	Interest per annum	Current portion of Note	Long-term portion of Note	Maturity
March 31, 2017	US$125,000	US$5,208	0.00%	CAD$28,412 US$20,833	– –	April 1, 2019
April 2, 2018	US$20,000	US$880	5.25%	CAD$13,753 USD$10,084	CAD$4,747 USD$3,481	April 4, 2020
October 1, 2018	US$550,000	US$16,484	5.00%	CAD$239,648 USD$175,720	CAD$471,650 USD$345,835	October 5, 2021

(1) Blended monthly payments of principal and interest.

(expressed in Canadian dollars)

16 Contingent consideration

The Company has recorded contingent consideration liabilities as part of various acquisitions that were conducted. The contingent consideration liabilities are paid if certain sales levels from the customers purchased are achieved over a period of time from the date of acquisition. The Company believes the sales levels will be met over the period of time to maturity, requiring payment of all contingent consideration liabilities.

As of December 31, 2018, contingent consideration is comprised of:

Acquisition	Origination	Initial amount	Current Balance	Maturity
North Virginia	March 31 , 2017	US$98,000	CAD$26,494 US$19,426	March 31, 2021
Shred Con	April 2, 2018	US$50,000	CAD$17,048 US$12,500	April 2, 2019
Safe Shredding	October 1, 2018	US$500,000	CAD$625,075 US$458,333	October 1, 2021

During the year ended December 31, 2018, the Company recorded a transaction recovery of $45,891 related to the Buffalo, North Virginia and RecordShred acquisitions. In these instances the contingent consideration was not fully earned due to sales levels from particular customers not being attained.

17 Changes in liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

	Contingent consideration	Notes Payable	Long-term debt	Total
	$	$	$	$
Balance as of December 31, 2017	64,895	148,563	3,637,143	3,850,601
Cash flows:				
Proceeds	–	–	1,684,972	1,684,972
Repayments	(208,163)	(180,342)	(1,099,183)	(1,487,688)
Non cash:				
Additions through acquisitions	777,240	738,549	–	1,515,789
Foreign exchange	34,644	51,441	215,559	301,644
Balance as of December 31, 2018	668,616	758,211	4,438,491	5,865,318

(expressed in Canadian dollars)

18 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 and fully paid

On January 23, 2017, the Company closed its private placements and debt conversion. The Company raised approximately $2.03 million out of a maximum of up to $4 million being offered to all eligible existing shareholders and raised an additional $2 million in an additional offering. Both private placement transactions sold units of the Company (the "Units") at a price of $0.30 per Unit. Each Unit is comprised of one common share in the capital of the Company (a "Common Share") and 0.15 of a Common Share purchase warrant (each whole such warrant, a "Warrant"). Each Warrant is exercisable into one Common Share at a price of $0.36 per Common Share for a period of five years from the closing date of the offerings. The Company issued 2,002,150 Warrants. No commissions or finders fees were paid in connection with the offerings.

On July 26, 2018, the Company completed a private placement of 18,333,334 common shares of the Company at a price of $0.60 per common share for gross proceeds of $11 million. The net proceeds of the private placement will be used to fund future growth initiatives including both acquisitions and organic growth, and for general corporate purposes. The $11 million gross proceeds have been recorded net of transaction costs of $797,023, which include broker commissions, legal and regulatory fees.

The following are the balances of issued common shares of the Company:

	Common stock		Warrants		Total	
	Number	$	Number	$	Number	$
Balance December 31, 2018	66,557,355	24,350,575	1,652,150	610,515	68,209,505	24,961,090
Balance December 31, 2017	47,502,587	13,451,864	1,652,150	610,515	49,154,737	14,062,379

c) Weighted average common shares

	2018	2017
Weighted average number of shares outstanding - basic	55,724,940	46,017,909
Dilutive potential ordinary shares		
- options and warrants	1,254,763	1,072,073
Weighted average number of shares outstanding - diluted	**56,979,703**	**47,089,982**
Number of shares excluded from diluted earnings per share calculation due to anti-dilutive effect:		
- options	320,500	3,035

(expressed in Canadian dollars)

18 Capital stock (continued)

d) 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 advisors 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 6,655,736 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 years ended:

	2018		2017	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding – Beginning of year	1,194,000	0.39	2,100,000	0.19
Granted	641,500	0.59	769,000	0.52
Exercised	(50,000)	0.10	(1,575,000)	0.21
Expired	–	–	(100,000)	0.03
Outstanding – End of year	1,785,500	0.47	1,194,000	0.39

(expressed in Canadian dollars)

18 Capital stock (continued)

d) Stock options (continued)

The following table summarizes the stock options outstanding as at:

		2018			2017		
Exercise price $	**Issue date**	**Number of options outstanding**	**Weighted average remaining contractual life (yrs)**	**Options exercisable**	**Number of options outstanding**	**Weighted average remaining contractual life (yrs)**	**Options exercisable**
0.10	Aug 6, 2013	–	–	–	50,000	0.58	50,000
0.10	Jan 7, 2014	5,000	0.02	5,000	5,000	1.02	3,750
0.15	July 28, 2014	5,000	0.58	5,000	5,000	1.58	3,750
0.17	Dec 11, 2014	10,000	0.95	10,000	10,000	1.95	10,000
0.15	Jan 2, 2015	5,000	1.00	3,750	5,000	2.00	2,500
0.15	June 1, 2015	300,000	1.42	300,000	300,000	2.42	300,000
0.18	Aug 26, 2015	25,000	1.67	25,000	25,000	2.67	25,000
0.20	Apr 6, 2016	25,000	2.27	25,000	25,000	3.27	18,750
0.51	May 1, 2017	718,000	3.33	718,000	718,000	4.33	718,000
0.60	June 30, 2017	31,000	3.50	15,500	31,000	4.50	7,750
0.61	Nov 1, 2017	20,000	3.84	5,000	20,000	4.84	–
0.55	Mar 15, 2018	305,000	4.20	305,000	–	–	–
0.63	Apr 16, 2018	300,500	4.29	100,166	–	–	–
0.60	May 22, 2018	16,000	4.39	5,333	–	–	–
0.70	Oct 1, 2018	20,000	4.75	–	–	–	–
		1,785,500		1,522,749	1,194,000		1,139,500

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:

	2018	2017
Expected option life	5 years	5 years
Risk-free interest rate	2.00%	1.04%
Expected dividend yield	$nil	$nil
Expected volatility	109%	143%

The vesting periods vary dependent on the individual option grant, either immediately or over the term of the option. During the year ended December 31, 2018, 50,000 stock options were exercised for proceeds of $5,000 (2017 – 1,575,000 stock options were exercised for proceeds of $325,000). The net stock compensation charge, after adjusting for stock option forfeitures, amounted to $248,138 (2017 - $293,989).

(expressed in Canadian dollars)

18 Capital stock (continued)

e) Warrants

The Company issued 1,802,150 warrants on January 23, 2017 as part of the private placement. Each warrant is exercisable into one Common Share at a price of $0.36 per Common Share for a period of five years and expire on January 23, 2022. The warrants have been classified as equity instruments. There were no warrants exercised during the year ended December 31, 2018 (150,000 – during the year ended December 31, 2017). As of December 31, 2018, there are 1,652,150 warrants outstanding. The fair values of the warrants were determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	2018	**2017**
Expected option life	5 years	5 years
Risk-free interest rate	2.00%	1.06%
Expected dividend yield	$nil	$nil
Expected volatility	109%	143%

19 Revenue

The revenue earned by the Company is broken down as follows:

	2018	**2017 (restated)**
	$	**$**
Royalties and license fees	2,166,239	2,015,023
Franchise fees	225,075	361,228
Ad Fund contributions	253,697	255,145
Shredding services	9,694,216	7,825,716
Sale of paper products	2,321,106	1,489,260
Total revenue	14,660,333	11,946,372

20 Corporate operating locations expenses by nature

The corporate operating locations expenses of the Company are broken down as follows:

	2018	**2017**
	$	**$**
Shredding vehicle and related expenses	1,758,297	1,289,175
Employee wages expense	3,820,199	2,846,989
Employee benefit expense	671,690	476,692
Office and administration expense	1,356,159	1,108,503
Total corporate operating expenses	7,606,345	5,721,359

(expressed in Canadian dollars)

21 Selling, general and administrative expenses by nature

The selling, general and administrative expenses of the Company are broken down as follows:

	2018	2017 (restated)
	$	$
Employee wages and benefits expense	1,480,571	1,209,465
Share-based compensation	248,138	293,989
Professional fees	301,948	253,249
Acquisition costs	132,448	–
Travel	205,224	192,386
Technology	315,395	351,881
Rent and office expense	176,110	139,892
Selling, development	208,261	118,652
Advertising Fund expenses	342,409	370,515
Other	127,985	150,115
Total selling, general and administrative expenses	3,538,489	3,080,144

Compensation of key management

Included in employee wages and benefits expense above is key management personnel compensation as follows:

	2018	2017
	$	$
Wages and benefits	1,034,125	725,107
Share-based compensation	134,457	283,581
Total	1,168,582	1,008,688

Compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer, Senior Vice President of Corporate Development, Senior Vice President of Operations and the Board of Directors.

(expressed in Canadian dollars)

22 Income taxes

Reconciliation of total tax recovery

The effective rate on the Company's income before income tax differs from the expected amount that would arise using the statutory income tax rates. A reconciliation of the difference is as follows:

	2018	2017
	$	$
Net income before taxes	2,393,058	325,961
Statutory income tax rate	26.5%	26.5%
Expected income tax expense based on above rates	634,160	86,379
Withholding tax	95,975	101,143
State tax	48,878	23,832
Non-deductible expenses	114,700	162,379
Recognition of previously unrecognized deferred tax assets	(1,070,250)	(770,809)
Prior year taxes	(2,985)	(111,713)
Effect of foreign tax rates	(13,384)	(17,900)
Other items	(126,514)	35,800
Income tax recovery	(319,420)	(490,889)

The enacted tax rate in Canada is 26.50% (2017 - 26.50%) and in the United States is 25.00% (2017 – 38.82%). These rates have been applied in the tax provision calculation.

	2018	2017
	$	$
Provision for (recovery of) income taxes is comprised of:		
Current income taxes	277,375	176,327
Deferred income taxes	(596,795)	(667,216)
	(319,420)	(490,889)

(expressed in Canadian dollars)

22 Income taxes (continued)

Deferred tax

Components of the net deferred income tax asset (liability) are as follows:

	2018	2017
	$	$
Net deferred income tax asset:		
Taxable temporary difference on property and equipment and intangibles	(816,765)	(261,861)
Unrealized foreign exchange	260,265	(120,441)
Non-capital losses	1,843,996	840,030
Net deferred income tax asset	1,287,496	457,728

Movement in the net deferred income tax asset (liability) is as follows:

	2018	2017
	$	$
Balance, beginning of the year	457,728	(207,044)
Recognized in income	600,275	667,216
Recognized directly in shareholders' equity/deficiency	229,493	–
Other	–	(2,444)
Balance, end of the year	1,287,496	457,728

During 2018, the Company recognized all temporary differences and non-capital losses. During 2017, the following temporary differences and non-capital losses were not recognized:

	2018	2017
	$	$
Non-capital losses	–	2,643,562
Tangible assets	–	20,157
Intangible assets	–	1,137,172
Other	–	432,262
	–	4,233,153

The Company has incurred Canadian non-capital losses of $3,737,194 that can be carried forward to reduce taxes payable in Canada. The losses expire at various times through December 31, 2035, commencing December 31, 2031. The Company has incurred US non-capital losses of $3,285,837 that can be carried forward to reduce taxes payable in the US. The losses expire at various times through December 31, 2037, commencing December 31, 2032.

(expressed in Canadian dollars)

23 Commitments

The Company has the following lease commitments:

Albany, New York	Expires March 31, 2019
North Virginia, Virginia	Expires August 31, 2019
Roseland, New Jersey	Expires September 30, 2019
Milwaukee, Wisconsin	Expires August 31, 2020
Ft. Lauderdale, Florida	Expires August 31, 2020
Syracuse, New York	Expires September 30, 2020
Watertown, New York	Expires March 31, 2021
Charlotte, North Carolina	Expires April 30, 2021
New York, New York	Expires June 30, 2022
Mississauga, Ontario	Expires September 30, 2023

Certain contracts include renewal options for various periods of time. For the year ended December 31, 2018, the Company incurred $505,250 (December 31, 2017 - $398,725) in lease payments as an expense included in ‘selling, general and administrative expenses’ and ‘corporate operating expenses’.

Non-cancellable operating lease rentals are payable as follows:

	$
Less than 1 year	475,468
Between 1 and 5 years	935,678
Total	1,411,146

24 Financial instruments and fair values

The Company has financial assets that consist of: cash and cash equivalents, cash attributable to the Advertising Fund, trade receivables and notes receivable from franchisees. The Company’s financial liabilities include accounts payable and accrued liabilities, notes payable and long-term debt.

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, foreign exchange risk and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

Fair values

The carrying value amounts of many of the Company’s financial instruments, including cash, trade receivables, accounts payables and accrued liabilities, which are all carried at amortized cost, approximate their fair 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 7), are made as at a specific point in time based on estimates using present value or other valuation techniques. The carrying value of the Company’s notes payable and long-term debt approximates fair value as the rates are similar to rates currently available to the Company.

(expressed in Canadian dollars)

24 Financial instruments and fair values (continued)

Fair values (continued)

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means.
- Level 3 input are unobservable (supported by little or no market activity).

The Company's contingent consideration is valued at fair values using Level 3 inputs. The Company does not have any Level 2 inputs. These valuation techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimate of future cash flows, future expected loss experience and other factors.

(expressed in Canadian dollars)

24 Financial instruments and fair values (continued)

Following is a table which sets out the fair values of recognized financial instruments using the valuation methods and assumptions described below:

December 31, 2018	Financial Assets	Other Financial Liabilities	Total Carrying Amount	Fair Value
	$	$	$	$
Cash and cash equivalents	8,830,669	-	8,830,669	8,830,669
Cash attributable to Ad Fund	215,709	-	215,709	215,709
Accounts receivable	1,461,562	-	1,461,562	1,461,562
Notes receivable	90,036	-	90,036	90,036
Total financial assets	**10,597,976**	**-**	**10,597,976**	**10,597,976**
Payables and accruals	-	1,411,280	1,411,280	1,411,280
Notes payable	-	758,211	758,211	758,211
Long-term debt	-	4,438,491	4,438,491	4,438,491
Contingent consideration	-	668,616	668,616	668,616
Total financial liabilities	**-**	**7,276,598**	**7,276,598**	**7,276,598**

December 31, 2017	Financial Assets	Other Financial Liabilities (restated)	Total Carrying Amount (restated)	Fair Value (restated)
	$	$	$	$
Cash and cash equivalents	2,245,533	-	2,245,533	2,245,533
Cash attributable to Ad Fund	193,776	-	193,776	193,776
Accounts receivable	972,987	-	972,987	972,987
Notes receivable	104,226	-	104,226	103,075
Total financial assets	**3,516,522**	**-**	**3,516,522**	**3,515,371**
Payables and accruals	-	728,143	728,143	728,143
Notes payable	-	148,563	148,563	148,563
Long-term debt	-	3,637,143	3,637,143	3,637,143
Contingent consideration	-	64,895	64,895	64,895
Total financial liabilities	**-**	**4,578,744**	**4,578,744**	**4,578,744**

(expressed in Canadian dollars)

24 Financial instruments and fair values (continued)

Interest rate risk

The Company is subject to interest rate risk, as it pays interest at prevailing and fluctuating market rates. The Company has fixed rates on notes receivable from franchisees ranging from 4.25% to 5.35% per annum. The Company also has a variable interest rate of prime plus 2.50% per annum on its Bank of Montreal term loan and prime plus 1.70% per annum on its Bank of Montreal line of credit. The Company's line of credit facility with a related party has a fixed interest rate of 10% per annum. The truck loans and finance leases have fixed interest rates ranging from 5.39% to 6.75% per annum. The Company's notes payable have fixed interest rates ranging from 0% to 5.25%. These financial instruments are subject to interest rate risk, as their fair values will fluctuate as a result of changes in market rates.

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 related to franchising and licensing

The accounts and notes receivable from franchisees 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. In addition, the receivable balances are monitored on an ongoing basis. As of December 31, 2018, 6 franchisees accounted for 51% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2017 - 6 franchises accounted for 59%). For the year ended December 31, 2018, 3 franchisees accounted for 23% of the Company's revenues related to franchising and licensing (December 31, 2017 - 3 franchisees accounted for 18%). As of December 31, 2018, there were no accounts and notes receivable over 90 days old (December 31, 2017 – nil).

Also refer to note 7 for details of notes receivable from franchisees.

Receivables related to corporate operations

The accounts receivable are exposed to credit risk from the possibility that customers may experience financial difficulty. At December 31, 2018, no customer accounted for more than 10% of the accounts receivable balance. For the years ended December 31, 2018 and 2017, no customer accounted for more than 10% of the Company's revenues in this category. As of December 31, 2018, 5% of accounts receivable in this category was over 90 days old (December 31, 2017 – 6%). As at December 31, 2018, the Company recorded an allowance for credit losses from receivables of $2,407 related to corporate operations (December 31, 2017 - $2,219). The Company does not have any reason to believe it will not collect all remaining balances.

(expressed in Canadian dollars)

24 Financial instruments and fair values (continued)

Credit risk (continued)

The aging analysis for accounts receivable past due related to corporate operations is as follows:

	2018	2017
	$	$
Past due but not impaired		
60 to 90 days	83,960	64,775
91 days to 180 days	59,894	48,233

Foreign exchange risk

The Company has revenues and costs that are denominated in US dollars; this dependency on the US dollar causes foreign exchange gains when the Canadian dollar depreciates versus the US dollar. The Company has significant dollar value assets denominated in US dollars which are revalued at the exchange rate at the date of the statement of financial position, which results in unrealized foreign exchange gains or losses.

The Company recorded a foreign exchange gain of $755,746 (December 31, 2017 – loss of $293,047) during the fiscal year. Based on the financial liability held in the United States and denominated in CAD at December 31, 2018, a 5% increase or decrease in exchange rates would impact the Company's net earnings by approximately $50,000 (December 31, 2017 - $10,000).

Exchange rates utilized (USD to CDN):

	2018	2017
	$	$
December 31 close rate	1.3638	1.2570
Average rate	**1.2957**	**1.3000**

Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. Cash flow forecasting is performed by management, which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. Although management considers its assumptions used in its cash flow forecasts to be reasonable, there is no assurance that the cash flow forecasts will be achieved. 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. The current liabilities of $3,490,360 at December 31, 2018 (December 31, 2017 - $2,279,717), are due to be settled within one year from the date of the statement of financial position. The Company has current assets of $10,778,632 at December 31, 2018 (December 31, 2017 - $3,658,075) including cash and cash equivalents of $8,830,669 (December 31, 2017 - $2,245,533).

(expressed in Canadian dollars)

24 Financial instruments and fair values (continued)

Liquidity risk (continued)

Principal	**Less than 3 months** $	**3 months to 1 year** $	**2 – 5 years** $	**Over 5 years** $
Accounts payable and accrued liabilities	1,121,796	289,484	-	-
Notes payable	83,476	198,337	476,397	-
Contingent consideration	76,081	177,100	415,436	-
Long-term debt	316,680	937,043	3,184,768	-

Interest	**Less than 3 months** $	**3 months to 1 year** $	**2 – 5 years** $	**Over 5 years** $
Notes payable	8,875	21,891	22,981	-
Long-term debt	81,073	215,184	416,008	-

Total principal and interest	**Less than 3 months** $	**3 months to 1 year** $	**2 – 5 years** $	**Over 5 years** $
Accounts payable and accrued liabilities	1,121,796	289,484	-	-
Notes payable	92,351	220,228	499,378	-
Contingent consideration	76,081	177,100	415,436	-
Long-term debt	397,753	1,152,227	3,600,776	-

25 Capital management

The Company defines capital as shareholders' equity. The primary objective of the Company's capital management is to ensure that it maintains the appropriate capital levels 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.

To effectively manage its capital, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has sufficient liquidity to meet its operating and growth objectives. The Company expects its current resources and projected cash flows from continuing operations to support its growth objectives.

The Company has credit facilities with Bank of Montreal which provides an operating line of credit and a non-revolving term loan. The Company's bank credit facilities contain financial covenants that require the Company to maintain certain financial ratios and meet certain financial thresholds. Refer to note 14 for the financial covenants.

(expressed in Canadian dollars)

26 Segment reporting

The business segments presented reflect the management structure of the Company and the way in which the Company's management reviews business performance. The Company operates three reportable operating segments, (1) the granting and managing of shredding business franchises under the "Proshred" trademark (Franchising and licensing), (2) the operation of corporately owned shredding businesses (Corporate locations) and (3) supporting the franchises and corporately owned shredding businesses (Corporate overhead).

Total assets and liabilities by reportable operating segment are as follows:

	Franchising and licensing	**Corporate locations**	**Corporate overhead**	**Total**
	December 31, 2018	**December 31, 2018**	**December 31, 2018**	**December 31, 2018**
ASSETS	**$**	**$**	**$**	**$**
Current assets				
Cash and cash equivalents	148,241	1,324,593	7,357,835	8,830,669
Cash attributable to the Ad Fund	215,709	-	-	215,709
Trade receivables	188,885	1,207,416	65,261	1,461,562
Prepaid expenses	18,683	156,035	48,478	223,196
Notes receivable from franchisees	47,496	-	-	47,496
Total current assets	619,014	2,688,044	7,471,574	10,778,632
Non-current assets				
Notes receivable from franchisees	42,450	-	-	42,450
Equipment	5,135	5,796,040	34,793	5,835,968
Intangible assets	17,275	5,168,715	-	5,185,990
Goodwill	-	4,812,448	-	4,812,448
Deferred tax asset	-	-	1,287,473	1,287,473
Total assets	683,874	18,465,247	8,793,840	27,942,961
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	120,512	710,868	579,900	1,411,280
Current portion of deferred revenue	236,821	-	-	236,821
Current income taxes payable	-	-	53,543	53,543
Current portion of contingent consideration	-	253,180	-	253,180
Current portion of notes payable	-	281,813	-	281,813
Current portion of long-term debt	-	1,253,723	-	1,253,723
Total current liabilities	357,333	2,499,584	633,443	3,490,360
Non-current liabilities				
Long-term debt	-	3,184,768	-	3,184,768
Deferred revenue	428,464	-	-	428,464
Contingent consideration	-	415,436	-	415,436
Note payable	-	476,397	-	476,397
Total liabilities	785,797	6,576,185	633,443	7,995,426

(expressed in Canadian dollars)

26 Segment reporting (continued)

	Franchising and licensing (restated)	Corporate locations	Corporate overhead	Total
	December 31, 2017	December 31, 2017	December 31, 2017	December 31, 2017
ASSETS	$	$	$	$
Current assets				
Cash and cash equivalents	280,332	1,049,663	915,538	2,245,533
Cash attributable to the Ad Fund	193,776	-	-	193,776
Trade receivables	138,312	773,641	61,034	972,987
Prepaid expenses	14,636	131,392	14,763	160,791
Notes receivable from franchisees	84,988	-	-	84,988
Total current assets	712,044	1,954,696	991,335	3,658,075
Non-current assets				
Notes receivable from franchisees	19,238	-	-	19,238
Equipment	11,944	3,728,543	31,747	3,772,234
Intangible assets	34,238	1,799,674	44,208	1,878,120
Goodwill	-	1,720,437	-	1,720,437
Deferred tax asset	-	-	457,728	457,728
Total assets	777,464	9,203,350	1,525,018	11,505,832
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	78,306	289,625	360,212	728,143
Current portion of deferred revenue	218,352	-	-	218,352
Current income taxes payable	-	-	51,193	51,193
Current portion of contingent consideration	-	44,790	-	44,790
Current portion of notes payable	-	122,357	-	122,357
Current portion of long-term debt	-	1,114,882	-	1,114,882
Total current liabilities	296,658	1,571,654	411,405	2,279,717
Non-current liabilities				
Long-term debt	-	2,522,261	-	2,522,261
Deferred revenue	613,130	-	-	613,130
Contingent consideration	-	20,105	-	20,105
Note payable	-	26,206	-	26,206
Total liabilities	909,788	4,140,226	411,405	5,461,419

(expressed in Canadian dollars)

26 Segment reporting (continued)

Geographic information

	December 31, 2018	December 31, 2017
Canada	**$**	**$**
Equipment	34,793	31,747
Intangible assets	-	44,208
United States		
Notes receivable from franchisees	89,946	104,226
Equipment	5,801,175	3,740,487
Intangible assets	5,185,990	1,833,912
Goodwill	4,812,448	1,720,437
Total		
Notes receivable from franchisees	89,946	104,226
Equipment	5,835,968	3,772,234
Intangible assets	5,185,990	1,878,120
Goodwill	4,812,448	1,720,437

Revenue

All revenues were attributed to the United States.

(expressed in Canadian dollars)

26 Segment reporting (continued)

Net income (loss) by operating segment

Total net income (loss) by reportable operating segment is as follows:

	For the year ended December 31, 2018			
	Franchising and licensing $	**Corporate locations** $	**Corporate overhead** $	**Total** $
Revenue	2,645,011	12,015,322	-	14,660,333
Direct costs	-	(7,606,345)	-	(7,606,345)
Selling, general and administrative	(1,329,948)	(784,986)	(1,423,555)	(3,538,489)
Depreciation and amortization	(91,229)	(1,589,623)	(21,728)	(1,702,580)
Foreign currency gain, net	-	-	736,630	736,630
Interest expense	-	(278,733)	-	(278,733)
Interest income	68,537	-	-	68,537
Transaction recovery	-	45,891	-	45,891
Gain on sale of assets	-	7,814	-	7,814
Income tax recovery	-	-	319,420	319,420
Net income (loss)	1,292,371	1,809,341	(389,233)	2,712,478

	For the year ended December 31, 2017			
	Franchising and licensing (restated) $	**Corporate locations** $	**Corporate overhead** $	**Total (restated)** $
Revenue	2,631,396	9,314,976	-	11,946,372
Direct costs	-	(5,721,359)	-	(5,721,359)
Selling, general and administrative	(1,443,157)	(405,867)	(1,231,120)	(3,080,144)
Depreciation and amortization	(578,884)	(1,341,647)	(22,568)	(1,943,099)
Foreign currency loss, net	-	-	(293,047)	(293,047)
Interest expense	-	(354,230)	-	(354,230)
Interest income	7,376	-	-	7,376
Gain on sale of assets	-	3,450	-	3,450
Income tax recovery	-	-	490,889	490,889
Net income (loss)	616,731	1,495,323	(1,055,846)	1,056,208

(expressed in Canadian dollars)

27 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. During the year ended December 31, 2017, the Company earned royalties, service fees and interest income of $149,858 (2017 - $128,875) from this franchise. Included in notes receivable from the franchisees is a three year note receivable balance of $9,988, which has an interest rate of 5% per annum.

On December 31, 2018, the Company acquired customer assets located in the Miami, Florida territory from the Tampa Bay, Florida Proshred franchise for a total purchase price of $29,418. The customer assets purchased were part of the total customer assets acquired by the Tampa Bay franchise from a third party.

28 Subsequent events

On January 31, 2019, the Company granted 124,050 stock options to non-management Directors of the Company. The stock options were granted at a price of $0.62 with a life of five years, expiring on January 29, 2024.

On February 1, 2019, the Company completed the acquisition of the Proshred Kansas City business from its franchisee. At the same time, it also acquired the Secure e-Cycle business, which was operated independently by the same franchisee. The total purchase price for these acquisitions was approximately USD$7.5 million in aggregate. The consideration paid included cash, contingent consideration and a note payable. Management is currently in the process of calculating the allocation of the purchase price to identifiable assets, intangible assets and goodwill. The acquisitions include on-site paper shredding trucks, plant-based shredding and baling equipment, client relationships and other assets used in the shredding and electronics recycling businesses. The Company views these acquisitions as accretive to its cash flows and earnings per share. The acquisitions were financed by utilizing cash reserves and existing line of credit as well as a vendor take back.

On February 28, 2019, the Company sold the customer assets located in Southern New Jersey originally purchased as part of the Safe Shredding business on October 1, 2018. The Southern New Jersey customer assets were sold to the Company’s Southern New Jersey franchisee for US$300,000.

On April 11, 2019, the Company granted 162,400 stock options to key management personnel. The stock options were granted at a price of $0.83 with a life of five years, expiring on April 10, 2024.