RediShred Capital Corp.

Consolidated Financial Statements
December 31, 2019 and 2018

(expressed in Canadian dollars)

April 16, 2020

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

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To the shareholders of

RediShred Capital Corp.

Opinion

We have audited the consolidated financial statements of RediShred Capital Corp. and its subsidiaries (the "Group") which comprise the consolidated statements of financial position as at December 31, 2019 and 2018 and the consolidated statements of comprehensive (loss) 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 the Group as at December 31, 2019 and 2018, 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 Group 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 skepticism 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 Group'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 Group'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 Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Grant Cuylle, CPA, CA.

Grant Thornton LLP

Mississauga, Canada
April 16, 2020

Chartered Professional Accountants
Licensed Public Accountants

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at December 31, 2019 and 2018

(expressed in Canadian dollars)

	2019 $	2018 $
Assets		
Current assets		
Cash and cash equivalents	10,063,511	8,830,669
Cash attributable to the Advertising Fund (note 5)	155,162	215,709
Trade receivables (note 6)	1,857,158	1,461,562
Prepaid expenses	388,223	223,196
Notes receivable from franchisees (note 7)	124,043	47,496
Total current assets	12,588,097	10,778,632
Non-current assets		
Notes receivable from franchisees (note 7)	276,575	42,450
Tangible assets (note 9)	12,335,590	5,835,968
Intangible assets (note 10)	12,990,916	5,185,990
Goodwill (notes 11 and 12)	14,102,815	4,812,448
Deferred tax asset (note 23)	1,475,684	1,287,473
Total non-current assets	41,183,580	17,164,329
Total assets	53,769,677	27,942,961
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 13)	1,814,056	1,411,280
Deferred revenue (note 20)	130,638	236,821
Income taxes payable (note 23)	7,069	53,543
Current portion of long-term debt (note 14)	2,875,391	1,253,723
Notes payable (note 16)	391,298	281,813
Lease liability (note 15)	805,920	-
Contingent consideration (note 17)	2,131,454	253,180
Total current liabilities	8,155,826	3,490,360
Non-current liabilities		
Long-term debt (note 14)	13,069,238	3,184,768
Deferred revenue (note 20)	354,538	428,464
Notes payable (note 16)	221,605	476,397
Lease liability (note 15)	1,906,570	-
Contingent consideration (note 17)	161,603	415,437
Total non-current liabilities	15,713,554	4,505,066
Total liabilities	23,869,380	7,995,426
Shareholders' equity		
Capital stock (note 19)	35,543,272	24,961,090
Contributed surplus	1,056,504	890,757
Accumulated foreign currency translation loss	(666,286)	(649,893)
Deficit	(6,033,193)	(5,254,419)
	29,900,297	19,947,535
Total liabilities and shareholders' equity	53,769,677	27,942,961

Subsequent events (note 28)

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 (Loss) Income

For the years ended December 31, 2019 and 2018

(expressed in Canadian dollars)

	2019 $	2018 $
Revenue (note 20)	22,407,061	14,660,333
Corporate operating locations expenses (note 21)	(13,501,741)	(7,606,345)
Depreciation – tangible assets	(2,634,620)	(1,175,673)
Selling, general and administrative expenses (note 22)	(3,860,336)	(3,538,489)
Total expenses	(19,996,697)	(12,320,507)
Operating income	2,410,364	2,339,826
Amortization – intangible assets	(1,386,663)	(526,907)
Foreign exchange (loss) gain	(1,317,998)	736,630
Transaction recovery (note 17)	22,557	45,891
Gain on sale of assets	80,568	7,814
Interest expense	(629,193)	(278,733)
Interest income	81,216	68,537
(Loss) Income before income taxes	(739,149)	2,393,058
Income tax (expense) recovery (note 23)	(39,625)	319,420
Net (loss) income for the year	(778,774)	2,712,478
Other comprehensive (loss) income		
Foreign currency translation (loss) income	(16,593)	48,459
Comprehensive (loss) income for the year	(795,367)	2,760,937
Net (loss) income per share		
Basic	(0.011)	0.049
Diluted	(0.011)	0.048
Weighted average number of commons shares outstanding – basic	72,449,429	55,724,940
Weighted average number of commons shares outstanding – diluted	74,449,429	56,979,703

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, 2019 and 2018

(expressed in Canadian dollars)

	Capital stock and warrants $ (note 19)	Contributed surplus $	Accumulated foreign currency translation loss $	Deficit $	Total shareholders' equity $
Balance – January 1, 2018	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 gain	–	–	48,459	–	48,459
Comprehensive income for the year					2,760,937
Issue of shares (note 19)	10,898,711	(4,664)	–	–	10,894,047
Stock-based compensation (note 19)	–	248,138	–	–	248,138
Balance – December 31, 2018	24,961,090	890,757	(649,893)	(5,254,419)	19,947,535
Net loss for the year	–	–	–	(778,774)	(778,774)
Other comprehensive loss					
Foreign currency translation loss	–	–	(16,393)	–	(16,393)
Comprehensive loss for the year					(795,167)
Issue of shares (note 19)	10,582,182	1,665	–	–	10,583,847
Stock-based compensation (note 19)	–	164,082	–	–	164,082
Balance – December 31, 2019	35,543,272	1,056,504	(666,486)	(6,033,193)	29,900,297

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, 2019 and 2018

(expressed in Canadian dollars)

Cash provided by (used in)	2019 $	2018 $
Operating activities		
Net (loss) income for the year	(778,774)	2,712,478
Items not affecting cash		
Amortization of equipment and intangible assets	4,021,283	1,702,581
Stock-based compensation	164,082	248,138
Unrealized foreign currency loss (gain)	1,068,475	(823,887)
Gain on sale of assets	(80,568)	(9,064)
Revaluation of contingent consideration	(22,557)	(44,641)
Deferred income tax recovery	(61,358)	(829,745)
	4,310,583	2,955,860
Net change in non-cash working capital balances		
Decrease (increase) in trade receivables	145,764	(346,377)
(Increase) in prepaid expenses	(177,418)	(49,049)
(Decrease) in deferred revenue	(151,693)	(225,075)
Increase in accounts payable and accrued liabilities	452,143	616,116
(Decrease) increase in income taxes payable	(119,777)	6,514
Net cash from operations	4,459,602	2,957,989
Financing activities		
Issuance of note receivable	(376,652)	-
Borrowings from long-term debt	14,599,617	1,684,972
Repayment of long-term debt	(1,892,267)	(1,099,183)
Issuance of capital stock	10,453,990	10,894,046
Repayment of notes receivable from franchisees	63,115	21,895
Repayment of notes payable	(401,401)	(180,342)
Repayment of lease liability	(707,474)	-
Payment of contingent considerations	(1,242,607)	(208,163)
Net cash from financing activities	20,496,321	11,113,225
Investing activities		
Cash paid on acquisitions	(21,351,881)	(6,096,007)
Decrease (increase) in cash held by advertising fund	51,354	(5,196)
Proceeds from sale of assets	613,268	104,107
Purchase of equipment	(2,708,200)	(1,628,790)
Net cash from investing activities	(23,395,459)	(7,625,886)
Effect of foreign exchange rate changes on cash	(327,625)	139,808
Net change in cash for the year	1,232,842	6,585,136
Cash – Beginning of year	8,830,669	2,245,533
Cash – End of year	10,063,511	8,830,669
Supplementary cash flow information		
Interest received	81,216	17,205
Interest paid	629,193	278,733
Income tax paid	91,603	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 ten locations in the United States, as of December 31, 2019.

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, 2019 and 2018, except for IFRS 16 – *Leases*, which was adopted on January 1, 2019 using the modified retrospective approach.

These consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as at December 31, 2019. Together, Redishred and its subsidiaries are referred to as "the Company."

The consolidated financial statements of the Company for the year ended December 31, 2019 were authorized for issue in accordance with a resolution of the Directors on April 16, 2020.

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.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

The Company's wholly-owned subsidiaries include:

Subsidiary name:	Incorporated in:	Functional currency:
Proshred Franchising Corp.	Delaware, United States	USD Dollar
Redishred Holdings US Inc.	Delaware, United States	USD Dollar
Redishred Acquisition Inc.	Delaware, United States	USD Dollar
Proshred Charlotte Inc.	Delaware, United States	USD Dollar
Redishred Kansas Inc.	Delaware, United States	USD Dollar
Redishred Chicago Inc.	Delaware, United States	USD 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 16 – Leases

The Company adopted *IFRS 16 – Leases* ("IFRS 16") effective January 1, 2019, which replaces IAS 17, Leases ("IAS 17"). 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. As a result, the Company recognized an increase to both assets and liabilities on its Consolidated Statements of Financial Position as well as a decrease to operating costs, an increase to depreciation and amortization and an increase to finance costs.

The Company adopted IFRS 16 using the modified restrospective approach using practical expedients, as permitted, which do not require the restatement of prior period financial information. The cumulative impact of the adoption of IFRS 16 is included in opening deficit as at January 1, 2019.

For leases that were classified as operating leases under IAS 17, lease liabilities and right-of-use assets have been recognized. The right-of-use assets have been measured at an amount equal to the corresponding lease liabilities, adjusted for any prepaid rent related to that lease. The lease liabilities have been measured at the present value of the remaining lease payments, discounted at the related incremental borrowing rate as at January 1, 2019.

At transition the Company applied the following practical expedients that were available:
(i) Used a single discount rate to a portfolio of leases with similar characteristics;
(ii) Excluded initial direct costs from measuring the right-of-use assets as at January 1, 2019;
(iii) Used hindsight in determining the lease term where the contract contains purchase, extension or termination options;
(iv) Relied upon our assessment of whether leases are onerous under the requirements of IAS 37, Provisions, contingent liabilities and contingent assets as at December 31, 2018 as an alternative to reviewing the right-of-use-assets for impairment; and
(v) Expensed lease payments for leases with a remaining term of less than one year at January 1, 2019.

The Company has applied one recognition exemption for lessees – leases of low-value assets.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

New standards adopted during the year (continued)

See note 15 for the Company's accounting policy for leases under IFRS 16 including estimates and judgements related to the accounting for leases.

Below is the effect of the transition to IFRS 16 on the Company's Statement of Financial Position as at January 1, 2019.

	December 31, 2018	Effect of IFRS 16 Remeasurement	Effect of IFRS 16 Reclassification	January 1, 2019
Assets	**$**	**$**	**$**	**$**
Tangible assets	5,835,968	885,200	–	6,721,168
Total non-current assets	17,164,329	885,200	–	18,049,529
Total assets	27,942,961	885,200	–	28,828,161
Liabilities				
Current liabilities				
Current portion of long-term debt	1,253,723	–	(250,780)	1,002,943
Lease liabilities	–	325,406	250,780	576,186
Total current liabilities	3,490,360	325,406	–	3,815,766
Non-current liabilities				
Long-term debt	3,184,768		(828,831)	2,355,937
Long-term lease liabilities	–	559,794	828,831	1,388,625
Total non-current liabilities	4,505,066	559,794	–	5,064,860
Total liabilities	7,995,426	885,200	–	8,880,626
Total liabilities and shareholders' equity	27,942,961	885,200	–	28,828,161

Below is a reconciliation of lease commitments to lease liabilities recognized under IFRS 16 at the date of transition, January 1, 2019.

	$
Operating lease commitment as at December 31, 2018	1,411,146
Discounted using the incremental borrowing rate as at January 31, 2019	885,200
Finance lease liabilities recognized as at December 31, 2018	1,079,611
Lease liabilities recognized as at January 1, 2019	1,964,811

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Accounting Policy Adopted from January 1, 2019

The Company assesses each contract at its inception to determine whether that contract is, or contains, a lease. If the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration then it is a contract lease. To assess whether a contract conveys the right to control the use of an identified asset, the Company determines whether the contract has the right (1) to use the identified asset, (2) to obtain substantially all of the economic benefits from use of the identified asset and (3) to direct the use of the identified asset.

At the lease commencement date a right-of-use ("ROU") asset and a lease liability is recorded. The right-of-use asset is initially measured at cost including:

(1) The initial amount of the lease liability adjusted for any lease payments made at or before the commencement date; plus
(2) Any initial direct costs incurred; and
(3) An estimate of costs to dismantle and remove the underlying asset or restore the site on which it is located; less
(4) Any lease incentives received.

The ROU asset is depreciated on a straight-line basis over the lease term unless the Company expects to obtain ownership of the leased asset at the end of the lease (refer to note 9). The lease term consists of the non-cancellable period of the lease and the periods covered by options to extend or terminate the lease, where reasonably certain to exercise these options.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The Company has used the incremental borrowing rate as the rate implicit in the leases cannot be readily determined. The incremental borrowing rates are 6% for real-estate leases and 5.95% to 6.50% for shredding vehicle leases. The lease liability is subsequently measured at amortized cost using the effective interest rate method.

Lease payments included in the measurement of the lease liability include:

(1) fixed payments;
(2) variable payments that depend on an index or rate;
(3) amounts expected to be payable under a residual value guarantee;
(4) the exercise price under a purchase option, if reasonably certain to exercise;
(5) lease payments in an optional renewal period, if reasonably certain to exercise the option; and
(6) penalties for early termination, if reasonably certain to exercise the option.

The lease liability is re-measured when there is a change in:

(1) future lease payments arising from a change in an index or rate;
(2) estimate of the amount expected to be payable under a residual value guarantee;
(3) expected exercise of a purchase, extension or termination option; and/or
(4) lease contract terms;

When the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

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 all of the Company's foreign subsidiaries 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 (loss) income 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 within net (loss) income in the statement of comprehensive (loss) income.

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 USD$5.2M redeemable Guaranteed Investment Certificate (GIC) and CAD$200,000 GIC held with its financial institution. The USD GIC has an interest rate of 2.50% per annum and the Canadian dollar GIC has an interest rate of 2.00%. Refer to note 26 for cash and cash equivalent balances by operating segment.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

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 other comprehensive (loss) 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. Transaction costs relating to the issuance of the senior credit facility obtained on April 30, 2019 are amortized over the term of each tranche of funding. 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 and accrued liabilities, notes payable, lease liabilities 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 statement of financial position date, on a forward-looking basis, the Company assesses the expected credit losses associated with its financial assets carried at amortized cost. The impairment assessment applied depends on whether there has been significant increase in credit risk.

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

(i) significant financial difficulty of the customer;

(ii) a breach of contract, such as 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 measures the expected credit losses through a loss allowance at an amount equal to the 12-month or full lifetime expected credit losses. The 12-month credit losses refer to the expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date. The full lifetime expected credit losses refer to those that result from all possible default events over the life of the financial instrument. A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition.

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
ROU assets	1.6 – 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 (loss) 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	2-3 years
Proshred system	10 years
Customer relationships	10 years
Computer software	2-5 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 (loss) 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 (loss) income or directly in equity, in which case the income tax is also recognized directly in other comprehensive (loss) income 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.

(iii) Corporate operations – electronic waste services

The Company earns revenue from providing disposal services of client's electronic waste and/or products and by way of resale of certain electronics collected from clients. Electronic waste service revenue is recorded when the electronic products are collected from the client, the Company has provided an invoice to the client and collections are reasonably assured. Electronic product revenue is recognized when the product has been picked up by a customer 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. In periods with reported net losses, all stock options and share purchase warrants are deemed anti-dilutive such that basic net loss per share and diluted net loss per share are equal. As a result, stock options and share purchase warrants that are "in the money" are not included in the computation of net loss per share because doing so would be anti-dilutive. 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.

Amendment to IFRS 3 – Business combinations

In October 2018, the IASB issued *Definition of a Business* (Amendments to IFRS 3). The amendments to IFRS 3 clarify the definition of a business, to guide entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments provide an assessment framework to determine when a series of integrated activities is not a business. The amendments will be effective for the Company's business combinations and asset acquisitions occurring on or after its fiscal year beginning on January 1, 2020.

(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.

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.

ii) 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.

iii) 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 23 for estimates and assumptions used.

(expressed in Canadian dollars)

4 Critical accounting estimates and judgements (continued)

iv) 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 notes 9 and 10 for estimates and assumptions used.

v) Leases

Judgements are necessary in determining whether a contract contains an identified asset. The Company needs to determine whether the identified asset is physically distinct or represents substantially all of the capacity of the asset and provides the right to substantially all of the economic benefits from the use of the asset. There is also judgment required in determining whether or not the Company has the right to control the use of the identified asset. If the Company has the decision-making rights that are most relevant to changing how and for what purpose the asset is used then the Company has the right to control the assets use.

The Company uses judgment in determining the incremental borrowing rate used to measure the lease liability for each lease contract, which should reflect the interest that the Company would have to pay to borrow at a similar term and security.

Judgement is also required when assessing whether it is reasonably certain that a lease extension option will be exercised. The Company typically exercises extension options on its leases however periodic reassessments are made as to whether the Company is reasonably certain to exercise the options.

vi) Contingent consideration

The Company uses judgement in determining the contingent consideration liabilities recorded as part of the acquisitions conducted. The contingent consideration liabilities are based on the projected, expected financial results of the acquired businesses that are likely to be met over the period of time to maturity, requiring payment of all contingent consideration liabilities.

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. The fund contributions are segregated, designated for a specific purpose and the Company acts, in substance, as an agent with regard to these contributions. Ad Fund contributions 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 Ad Fund contributions and expenses from the Company owned locations have been eliminated on consolidation.

(expressed in Canadian dollars)

5 Advertising fund (continued)

The Ad Fund related revenue and expenses as well as cash balance as at December 31, 2019 and December 31, 2018 are as follows:

For the year ended,	**December 31, 2019**	**December 31, 2018**
	$	$
Ad Fund revenue	287,407	253,697
Ad Fund expenses	(403,263)	(342,409)
Ad Fund net loss	(115,856)	(88,712)

As at,	**December, 2019**	**December 31, 2018**
	$	$
Cash attributable to the Ad Fund	155,162	215,709

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, 2019 are as follows:

	2019	**2018**
	$	**$**
Trade receivables	1,803,930	1,395,888
Other receivables	55,520	68,081
Less: Allowance for doubtful accounts	(2,292)	(2,407)
Trade receivables – net	1,857,158	1,461,562

(expressed in Canadian dollars)

7 Notes receivable from franchisees

Notes receivable arise from the financing of the initial franchise fee by franchisees and from the sale of customer assets to franchisees when the customer assets are located in a franchisee's territory. All notes receivable are guaranteed by the respective owners of the franchises. The notes receivable bear interest rates ranging from 5.25% to 6.00% per annum with monthly blended payments of principal and interest ranging from USD$540 to USD$5,506. The payments on the notes commenced between dates ranging from January 1, 2014 to March 1, 2019 and mature between dates ranging from December 31, 2020 to February 1, 2024.

The notes receivable as at December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
	$	$
Opening balance, January 1	89,946	104,226
Add: new notes	415,616	81,828
Less: repayments	(104,944)	(96,108)
Closing balance, December 31	400,618	89,946
Less: current portion	(124,043)	(47,496)
Long-term portion	276,575	42,450

At December 31, 2019, 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 ended December 31, 2019:

1. On January 31, 2019, the Company acquired the Proshred Kansas City and Secure E-Cycle business from its franchisee.
2. On October 1, 2019, the Company acquired the Proshred Chicago business from its franchisee.

The Company conducted the acquisitions to increase its long-term cash flows and to increase its market share in the United States.

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.

(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.

During the year ended December 31, 2019	Kansas City and Secure E-Cycle	Chicago	Total
Exchange rate used	1.31	1.32	
Assets acquired	$	$	$
Net Working capital	235,802	317,761	553,563
Tangible assets	2,676,618	3,276,735	5,953,353
Customer relationships	4,787,491	4,324,201	9,111,692
Re-acquired franchise rights	280,611	280,752	561,363
Goodwill	2,806,823	6,856,939	9,663,762
	10,787,345	15,056,388	25,843,733
Consideration given			
Cash	8,760,643	12,600,421	21,361,064
Note payable (note 16)	294,750	-	294,750
Contingent consideration (note 17)	1,326,259	1,619,731	2,945,990
Lease liabilities assumed	405,693	836,236	1,241,929
	10,787,345	15,056,388	25,843,733
Acquisition costs (expensed in statement of comprehensive income)	61,820	81,175	142,995

As part of the acquisitions, the Company issued two notes payable of US$150,000 and US$75,000. Refer to note 16. 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:
(a) the retention of clients and revenue over a 12-month period post acquisition for the Kansas City acquisitions; and
(b) the gross profit over a 12-month period post acquisition for the Chicago 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 fair value of the re-acquired franchise rights were determined by discounting the cash flows from the franchise royalty stream over the remaining contractual term of the franchise agreement.

The pro forma consolidated results of the Company, as if the acquisitions had been closed on January 1, 2019, would result in estimated revenue of $27,064,808 (compared to reported revenue of $22,407,061) and estimated net loss of $731,441 (compared to reported net loss of $917,751). In preparing the pro forma results, revenue and costs have been included as if the business was acquired on January 1, 2019 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)

8 Acquisitions (continued)

The total revenue of the acquisitions included in the total reported consolidated revenue is $5,727,673. The total income of the acquisitions included in the total reported Statement of Comprehensive (Loss) Income is $112,880.

The Company completed the following acquisitions during the year ended December 31, 2018:

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.

During the year ended December 31, 2018	**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

(expressed in Canadian dollars)

9 Tangible assets

			December 31, 2019			**December 31, 2018**
	Cost	Accumulated depreciation	**Net carrying value**	Cost	Accumulated depreciation	**Net carrying value**
	$	$	**$**	$	$	**$**
Computer equipment	313,779	(272,186)	**41,593**	299,128	(256,894)	**42,234**
Furniture & fixtures	255,375	(153,721)	**101,654**	166,361	(124,166)	**42,195**
Bins & shredding containers	1,805,818	(770,287)	**1,035,531**	1,048,222	(586,002)	**462,220**
Shredding vehicles - chassis	3,888,079	(1,286,009)	**2,602,070**	2,491,987	(851,143)	**1,640,844**
Shredding vehicles - box	8,294,950	(2,969,279)	**5,325,671**	5,696,153	(2,080,371)	**3,615,782**
Vehicles	183,062	(145,957)	**37,105**	160,486	(127,793)	**32,693**
Baling equipment	486,530	(34,208)	**452,322**	-	-	**-**
Right of use assets	3,253,706	(514,062)	**2,739,644**	-	-	**-**
Total tangible assets	18,481,300	(6,145,709)	**12,335,590**	9,862,337	(4,026,369)	**5,835,968**

	December 31, 2018	January 1, 2019						**December 31, 2019**
	Net carrying value	Adoption of IFRS 16	Additions	Acquisitions	Depreciation	Disposition of Assets	Foreign exchange	**Net carrying value**
	$	$	$	$	$	$	$	**$**
Computer equipment	42,234	-	40,960	-	(30,996)	-	(10,605)	**41,593**
Furniture & fixtures	42,195	-	24,178	66,674	(30,768)	-	(625)	**101,654**
Bins & shredding containers	462,220	-	219,723	600,214	(216,352)	(11,997)	(18,277)	**1,035,531**
Shredding vehicles - chassis	1,640,844	(353,375)	790,372	1,138,396	(482,826)	(69,990)	(61,351)	**2,602,070**
Shredding vehicles - box	3,615,782	(749,829)	1,322,570	2,347,534	(998,074)	(77,089)	(135,223)	**5,325,671**
Vehicles	32,693	-	2,826	65,640	(37,202)	(25,435)	(1,417)	**37,105**
Baling equipment	-	-	-	492,967	(34,208)	-	(6,437)	**452,322**
Right of use assets	-	1,988,405	340,034	1,241,928	(751,044)	-	(79,679)	**2,739,644**
Total tangible assets	5,835,968	885,201	2,740,663	5,953,353	(2,581,470)	(184,511)	(313,614)	**12,335,590**

	December 31, 2017						**December 31, 2018**
	Net carrying value	Additions	Sale of assets	Acquisitions	Depreciation	Foreign exchange	**Net carrying value**
	$	$	$	$	$	$	**$**
Computer equipment	42,690	39,072	-	863	(43,816)	3,425	**42,234**
Furniture & fixtures	43,626	13,217	-	-	(17,566)	2,918	**42,195**
Bins & shredding containers	256,431	147,343	(9,513)	173,202	(123,090)	17,847	**462,220**
Shredding vehicles - chassis	1,012,804	499,861	-	345,720	(303,594)	86,053	**1,640,844**
Shredding vehicles - box	2,389,916	999,271	-	709,799	(707,874)	224,670	**3,615,782**
Vehicles	26,767	5,874	(8,606)	43,215	(36,866)	2,309	**32,693**
Total tangible assets	3,772,234	1,704,638	(18,119)	1,272,799	(1,232,806)	337,222	**5,835,968**

Right of use assets included in the above line are as follows:

	Office & warehouse buildings	Shredding vehicles
	$	$
Balance as at January 1, 2019	885,200	1,103,204
Additions for the year	291,780	48,253
Acquisitions for the year	1,241,928	–
Depreciation expense for the year	(514,061)	(236,983)
Foreign exchange loss	(27,099)	(52,580)
Balance as at December 31, 2019	1,877,749	861,895

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, 2019 and December 31, 2018.

(expressed in Canadian dollars)

10 Intangible assets

			December 31, 2019			**December 31, 2018**
	Cost	Accumulated amortization	**Net carrying value**	Cost	Accumulated amortization	**Net carrying value**
	$	$	**$**	$	$	**$**
Computer software	239,690	(41,884)	**197,806**	21,821	(4,546)	**17,275**
Re-acquired franchise rights	553,621	(104,131)	**449,490**	-	-	**-**
Customer relationships	15,395,138	(3,051,518)	**12,343,620**	7,082,548	(1,913,833)	**5,168,715**
Total intangible assets	16,188,449	(3,197,534)	**12,990,916**	7,104,369	(1,918,379)	**5,185,990**

	January 1, 2019						**December 31, 2019**
	Net carrying value	Additions	Sale of assets	Acquisitions	Amortization	Foreign exchange	**Net carrying value**
	$	$	$	$	$	$	**$**
Computer software	17,275	204,002	-	-	(23,740)	269	**197,806**
Re-acquired franchise rights	-	-	-	561,363	(104,131)	(7,742)	**449,490**
Customer relationships	5,168,715	-	(343,200)	9,111,692	(1,229,541)	(364,046)	**12,343,620**
Total intangible assets	5,185,990	204,002	(343,200)	9,673,055	(1,357,412)	(371,519)	**12,990,916**

	December 31, 2017						**December 31, 2018**
	Net carrying value	Additions	Sale of assets	Acquisitions	Amortization	Foreign exchange	**Net carrying value**
	$	$	$	$	$	$	**$**
Franchise agreements	34,238	-	-	-	(32,584)	(1,654)	**-**
Proshred system	16,309	-	-	-	(16,309)	-	**-**
Trademarks & intellectual property	27,891	-	-	-	(27,891)	-	**-**
Computer software	-	21,821	-	-	(4,546)	-	**17,275**
Re-acquired franchise rights	4,226	-	-	-	(3,743)	(483)	**-**
Customer relationships	1,795,456	-	(90,300)	3,542,915	(467,052)	387,696	**5,168,715**
Total intangible assets	1,878,120	21,821	(90,300)	3,542,915	(552,125)	385,559	**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, 2019 and December 31, 2018. 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, 2019 and 2018:

	2019	2018
	$	$
Opening balance	4,812,448	1,720,437
Acquisitions (note 8)	9,663,762	2,765,886
Foreign currency translation	(373,396)	326,125
Closing balance	14,102,815	4,812,448

12 Impairment of goodwill and long-lived assets

The Company performs an impairment test of long-lived assets when there is an indication of 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 impairment of the Company's long-lived assets during the year ended December 31, 2019 or 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 may result in an impairment loss of $100,000 to $200,000.

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

Cash Generating Unit	2019	2018
	$	$
Syracuse	169,170	177,636
Albany	117,648	123,536
Milwaukee	834,487	876,250
New York City	752,130	789,771
North New Jersey	2,709,648	2,845,255
Kansas City	2,782,827	-
Chicago	6,736,905	-
Total goodwill	14,102,815	4,812,448

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, 2018 – 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, 2019 and December 31, 2018, accounts payable and accrued liabilities are comprised of:

	2019	2018
	$	$
Accounts payable	870,548	495,068
Accrued liabilities	943,508	916,212
Total accounts payable and accrued liabilities	1,814,056	1,411,280

14 Long-term debt

As at December 31, 2019 and December 31, 2018, long-term debt is comprised of:

	2019	2018
	$	$
Bank facilities	13,123,568	1,438,166
Less: transaction costs	(249,957)	(116,402)
Net bank facilities (i)	12,873,611	1,321,764
Truck loans (ii)	3,071,018	2,041,740
Shredding vehicle lease liabilities (iii)	-	1,074,987
Total long-term debt	15,944,629	4,438,491
Less: current portion	(2,875,391)	(1,253,723)
Total	13,069,238	3,184,768

(expressed in Canadian dollars)

14 Long term debt (continued)

Long-term debt principal repayments as at December 31, 2019, stated in Canadian dollars, are as follows:

	2020 $	2021 $	2022 $	2023 $	2024 $	2025 $	2026 $	Total $
Principal repayments	2,860,842	2,918,516	2,655,807	2,340,313	2,086,426	3,091,989	240,693	16,194,586

The long-term debt principal repayments have been translated at the closing rate at December 31, 2019 using an exchange rate of USD$1.00 = CAD$1.2988.

(i) *Bank facilities*

As of December 31, 2019, the Company has the following secured senior credit facilities:

1. An operating line of credit of CAD$1 million;
2. A non-revolving term loan in the amount of CAD$3 million and;
3. A non-revolving term loan in the amount of USD$10 million (advances can be taken in either USD or CAD equivalent, at the Company's discretion).

As of December 31, 2019, the Company has advanced the following amounts:

Date of Advance	Initial amount	Interest per annum	Amortization period	December 31, 2019 Balance	December 31, 2018 Balance
	$			$	$
August, 2017	2,006,743	4.95%	60 months	1,036,817	1,438,166
May, 2019	6,003,210	3.50%	72 months	5,492,638	–
November, 2019	6,664,242	3.50%	72 months	6,594,113	–
Total bank indebtedness				13,123,568	1,438,166

On May 6, 2019, the Company revised the terms of its existing credit facilities with its lender. The CAD$3 million non-revolving term loan interest rate was reduced from prime rate plus 2.50% to prime rate plus 1.00% and the operating line of credit interest rate was reduced from prime rate plus 1.25% to prime rate plus 1.00%.

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.

(expressed in Canadian dollars)

14 Long term debt (continued)

(i) *Bank facilities* (continued)

As of December 31, 2019, the Company has CAD$2.0 million available on its senior credit facilities.

The bank credit facilities as at December 31, 2019, 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 3.00:1 which is defined as total senior debt divided by EBITDA;

3. A maximum total funded debt to EBITDA ratio of 3.50:1 which is defined as total debt to EBITDA;

4. Capital expenditures are not to exceed USD$1.7 million in any fiscal year; and

5. Unfunded capital expenditures are not to exceed USD$300,000 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, 2019 and 2018, the Company was in compliance with all of the banking covenants.

(ii) Truck loans

The Company has established a USD$1.7 million line of credit for the purchase of shredding vehicles with a lender in the United States. The line of credit is available in increments of one year, with annual credit reviews completed. The interest rate is based on prevailing market rates at the time the line is used. The term of the loans are at the discretion of the Company. As of December 31, 2019, the Company has received an advance of USD$1,298,789 on the line of credit (2018 – USD$550,604), which is included in the truck loans balance. The Company has USD$401,211 available for use on the line of credit as of December 31, 2019 (2018 – USD$1,149,396).

As at December 31, 2019, the Company has the following related to truck loans:

	Loan value	**Carrying value of assets pledged**	**Range of interest rates**	**Range of Origination Date**	**Range of Maturity Dates**
	$	**$**			
Truck loans	3,071,011	3,955,323	4.54% - 6.75%	June 23, 2015 – December 16, 2019	June 23, 2020 – December 20, 2024

(expressed in Canadian dollars)

14 Long term debt (continued)

(iii) Shredding vehicle lease liabilities

With the adoption of *IFRS 16 – Leases,* effective January 1, 2019, the Company has re-classified its shredding vehicle leases to lease liabilities. The Company used the modified retrospective approach using practical expedients which do not require the restatement of prior period financial information. Refer to note 15.

(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, 2019, the facility has not been drawn upon (December 31, 2018 - $nil).

15 Lease liabilities

The Company enters into leases in order to secure office and warehouse space. The Company has also entered into leases for the financing of shredding vehicles. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and asset.

Lease liability	Number of ROU assets leased	Range of remaining term	Range of interest rates	Lease balance as at December 31, 2019
				$
Office and warehouse building	10	September 2020 to August 2025	6%	1,928,304
Shredding vehicles	7	August 2021 to October 2022	5.95% to 6.50%	785,961

The activity related to the lease liabilities for the year ended December 31, 2019 is as follows:

	$
Opening balance, January 1, 2019	1,964,811
Acquisitions	1,241,928
Additions	291,780
Interest expense	(138,028)
Lease payments	(705,315)
Foreign exchange	57,314
Closing balance, December 31, 2019	2,712,490
Less: current portion	805,920
Long-term portion	1,906,570

The total interest expense on lease liabilities included in the Consolidated Statement of Comprehensive (Loss) Income is $138,028. The total cash outflows on lease liabilities for the year ended December 31, 2019 is $843,342.

(expressed in Canadian dollars)

15 Lease liabilities (continued)

The following table outlines the total contractual undiscounted minimum lease payments due as at December 31, 2019:

	Within 1 year $	2-5 years $	Over 5 years $	Total $
Lease payments	948,414	2,048,900	36,107	3,033,421
Finance charges	(142,494)	(177,638)	(799)	(320,931)
Lease liabilities	805,920	1,871,262	35,308	2,712,490

Lease payments not recognized as a liability

The Company has elected not to recognize a lease liability for short term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expense relating to payments not included in the measurement of the lease liability is as follows:

For the year ended December 31, 2019	$
Short-term leases	45,010
Variable lease payments	219,911
Total	264,921

16 Notes payable

As at December 31, 2019, notes payable is comprised of:

Origination	Initial amount	Payment (1)	Interest per annum	Current portion	Long-term portion	Maturity
April 2, 2018	USD$20,000	USD$880	5.25%	CAD$4,521 USD$3,481	– –	April 4, 2020
October 1, 2018	USD$550,000	USD$16,484	5.00%	CAD$239,903 USD$184,711	CAD$209,283 USD$161,124	October 5, 2021
January 31, 2019	USD$75,000	USD$3,166	1.25%	CAD$48,958 USD$37,695	CAD$4,107 USD$3,163	January 31, 2021
January 31, 2019	USD$150,000	USD$6,332	1.25%	CAD$97,916 USD$75,390	CAD$8,215 USD$6,325	January 31, 2021
Total Notes Payable				**CAD$391,298** **USD$301,277**	**CAD$221,605** **USD$170,612**	

(1) Blended monthly payments of principal and interest.

As at December 31, 2018, the current portion of notes payable is $281,813 and long-term portion of notes payable is $476,396.

(expressed in Canadian dollars)

17 Contingent consideration

The Company has recorded contingent consideration liabilities as part of the acquisitions conducted. The contingent consideration liabilities are paid if certain financial results are achieved. The Company believes the financial results will be met over the period of time to maturity, requiring payment of all contingent consideration liabilities.

As of December 31, 2019, contingent consideration is comprised of:

Acquisition	Origination	Initial amount	Current Portion	Long-term Portion	Maturity
North Virginia	March 31, 2017	USD$98,000	CAD$15,149 USD$11,664	CAD$3,787 USD$2,916	March 31, 2021
Safe Shredding	October 1, 2018	USD$500,000	CAD$216,468 USD$166,668	CAD$157,816 USD$121,508	October 1, 2021
Kansas City	January 31, 2019	USD$681,475	CAD$476,499 USD$366,876	– –	January 31, 2020
Secure E-Cycle	January 31, 2019	USD$308,034	CAD$205,255 USD$158,034	– –	January 31, 2020
Chicago	October 1, 2019	USD$1,223,362	CAD$1,218,083 USD$937,852	– –	October 1, 2020
Total contingent consideration			**CAD$2,131,454** **USD$1,641,094**	**CAD$161,603** **USD$124,424**	

During the year ended December 31, 2019, the Company recorded a transaction recovery of $16,586 related to the Secure E-Cycle acquisition. In this instance the contingent consideration was not fully earned due to gross profit levels not being attained in one quarter of 2019.

As at December 31, 2018, the current portion of contingent consideration is $253,180 and the long-term portion of contingent consideration is $415,437.

(expressed in Canadian dollars)

18 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, 2018	668,616	758,211	4,438,491	5,865,318
Cash flows:				
Proceeds	-	-	14,599,617	14,599,617
Repayments	(1,242,607)	(401,401)	(1,892,267)	(3,536,275)
Non cash:				
IFRS 16 re-classification	-	-	(1,079,611)	(1,079,611)
Additions through acquisitions	2,945,990	294,750	-	3,240,740
Foreign exchange	(78,942)	(38,657)	(121,602)	(239,201)
Balance as of December 31, 2019	2,293,057	612,903	15,944,629	18,850,588

19 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 July 4, 2019, the Company completed a private placement of 11,842,000 common shares at a price of $0.95 per common share for total gross proceeds of $11,249,900. 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 gross proceeds have been recorded net of transaction costs of $835,252.

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

	Common stock		**Warrants**		**Total**	
	Number	**$**	**Number**	**$**	**Number**	**$**
Balance December 31, 2019	78,500,605	34,813,408	1,823,400	600,008	80,324,005	35,413,416
Balance December 31, 2018	66,557,355	24,350,575	1,852,150	610,515	68,209,505	24,961,090

(expressed in Canadian dollars)

19 Capital stock (continued)

c) Weighted average common shares

	2019	2018
Weighted average number of shares outstanding - basic	72,449,429	55,724,940
Dilutive potential ordinary shares		
- options and warrants	2,027,624	1,254,763
Weighted average number of shares outstanding - diluted	**74,477,053**	**56,979,703**
Number of shares excluded from diluted earnings per share calculation due to anti-dilutive effect:		
- options	–	320,500

d) Warrants

The Company issued 2,002,150 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 28,750 warrants exercised during the year ended December 31, 2019 (nil – during the year ended December 31, 2018). As of December 31, 2019, there are 1,823,400 warrants outstanding. The fair values of the warrants were determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	2019	2018
Expected option life	5 years	5 years
Risk-free interest rate	2.00%	2.00%
Expected dividend yield	$nil	$nil
Expected volatility	81%	109%

(expressed in Canadian dollars)

19 Capital stock (continued)

e) Stock options

Under the terms of the stock option plan:

i) From time to time, the Company designates eligible participants to whom options will be granted and the number of shares to be optioned to each;

ii) Eligible participants are persons who are directors, officers, employees and 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 7,850,060 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:

	2019		2018	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding – January 1,	1,785,500	0.47	1,194,000	0.39
Granted	347,150	0.76	641,500	0.59
Exercised	(72,500)	0.37	(50,000)	0.10
Expired	(10,000)	0.13	–	–
Outstanding – December 31,	2,050,150	0.52	1,785,500	0.47

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, 2019, 72,500 stock options were exercised for proceeds of $26,950 (2018 – 50,000 stock options were exercised for proceeds of $5,000). The net stock compensation charge, after adjusting for stock option forfeitures, amounted to $164,082 (2018 - $248,138).

(expressed in Canadian dollars)

19 Capital stock (continued)

e) Stock options (continued)

The following table summarizes the stock options outstanding as at:

		2019			2018		
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**
0.15	Jan 2, 2015	5,000	0.01	5,000	5,000	1.00	3,750
0.15	June 1, 2015	300,000	0.42	300,000	300,000	1.42	300,000
0.18	Aug 26, 2015	25,000	0.67	25,000	25,000	1.67	25,000
0.51	May 1, 2017	693,000	2.33	652,375	718,000	3.33	718,000
0.60	June 30, 2017	18,500	2.50	10,750	31,000	3.50	15,500
0.61	Nov 1, 2017	20,000	2.84	10,000	20,000	3.84	5,000
0.55	Mar 15, 2018	305,000	3.20	305,000	305,000	4.20	305,000
0.63	Apr 16, 2018	300,500	3.29	200,334	300,500	4.29	100,166
0.60	May 22, 2018	16,000	3.39	10,667	16,000	4.39	5,333
0.70	Oct 1, 2018	20,000	3.75	5,000	20,000	4.75	–
0.62	Jan 30, 2019	124,050	4.08	41,350	–	–	–
0.83	April 11, 2019	185,400	4.28	54,133	–	–	–
0.94	May 21, 2019	10,000	4.39	–	–	–	–
0.88	June 6, 2019	5,000	4.44	–	–	–	–
0.84	Oct 1, 2019	22,700	4.75	–	–	–	–
		2,050,150		1,619,609	1,740,500		1,477,749

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:

	2019	**2018**
Expected option life	5 years	5 years
Risk-free interest rate	2.00%	2.00%
Expected dividend yield	$nil	$nil
Expected volatility	81%	109%

(expressed in Canadian dollars)

20 Revenue

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

	2019	2018
	$	$
Royalties and license fees	2,231,403	2,166,239
Franchise fees	151,693	225,075
Ad Fund contributions	287,407	253,697
Shredding services	16,018,447	9,694,216
Sale of paper products	2,537,121	2,321,106
Electronic waste services	1,180,990	–
Total revenue	22,407,061	14,660,333

The Company has recorded $485,176 (2018 - $665,285) of deferred revenue related to initial franchise fees and renewal fees. The Company expects to recognize $130,638 (2018 - $236,821) as franchise fee revenue in the following fiscal period, which represents the current portion of deferred revenue. The non-current portion of deferred revenue of $354,538 (2018 - $428,464) is expected to be recognized over the remaining term of the franchise agreements.

21 Corporate operating locations expenses by nature

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

	2019	2018
	$	$
Shredding vehicle and related expenses	3,065,046	1,758,297
Acquisition costs	357,493	73,217
Employee wages expense	6,723,608	3,746,982
Employee benefit expense	1,297,147	671,690
Office and administration expense	2,058,447	1,356,159
Total corporate operating expenses	13,501,741	7,606,345

(expressed in Canadian dollars)

22 Selling, general and administrative expenses by nature

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

	2019	**2018**
	$	**$**
Employee wages and benefits expense	1,613,031	1,480,571
Share-based compensation	164,082	248,138
Professional fees	423,659	301,948
Acquisition costs	170,173	132,448
Travel	215,327	205,224
Technology	382,882	315,395
Rent and office expense	203,491	176,110
Selling, development	138,888	208,261
Advertising Fund expenses	403,263	342,409
Other	145,540	127,985
Total selling, general and administrative expenses	3,860,336	3,538,489

Compensation of key management

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

	2019	**2018**
	$	**$**
Wages and benefits	839,697	1,034,125
Share-based compensation	137,160	134,457
Total	976,857	1,168,582

Compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer, Senior Vice President of Corporate Development (2018), Senior Vice President of Operations and the Board of Directors.

(expressed in Canadian dollars)

23 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:

	2019	2018
	$	$
Net (loss) income before taxes	**(739,149)**	**2,393,058**
Statutory income tax rate	26.50%	26.5%
Expected income tax (recovery) expense based on above rates	(195,874)	634,160
Withholding tax	–	95,975
State tax	8,668	48,878
Non-deductible expenses	356,297	114,700
Recognition of previously unrecognized deferred tax assets	60,060	(1,070,250)
Prior year taxes	(32,350)	(2,985)
Effect of foreign tax rates	3,151	(13,384)
Other items	(160,327)	(126,514)
Income tax recovery	39,625	(319,420)

The enacted tax rate in Canada is 26.50% (2018 - 26.50%) and in the United States is 26.37% (2018 – 25.00%). These rates have been applied in the tax provision calculation.

	2019	2018
	$	$
Provision for (recovery of) income taxes is comprised of:		
Current income taxes	100,983	277,375
Deferred income taxes	(61,358)	(596,795)
	39,625	(319,420)

(expressed in Canadian dollars)

23 Income taxes (continued)

Deferred tax

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

	2019	2018
	$	$
Net deferred income tax asset:		
Taxable temporary difference on property and equipment and intangibles	(2,879,930)	(816,765)
Unrealized foreign exchange	3,821,044	260,242
Non-capital losses	534,569	1,843,996
Net deferred income tax asset	1,475,684	1,287,473

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

	2019	2018
	$	$
Balance, January 1,	1,287,496	457,728
Recognized in income	61,358	600,275
Recognized directly in shareholders' equity/deficiency	126,830	229,470
Balance, December 31,	1,475,684	1,287,473

During 2018 and 2019, the Company recognized all temporary differences and non-capital losses. The Company has incurred Canadian non-capital losses of $2,017,243 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 $11,386,966 that can be carried forward to reduce taxes payable in the US. The losses expire at various times through December 31, 2039, commencing in December 31, 2022.

(expressed in Canadian dollars)

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, accrued liabilities, notes payable, long-term debt and contingent consideration.

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.

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. There were no transfers between levels of the far value hierarchy during the years ended December 31, 2019 or December 31, 2018.

(expressed in Canadian dollars)

24 Financial instruments and fair values (continued)

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, 2019	Financial Assets	Other Financial Liabilities	Total Carrying Amount	Fair Value
	$	$	$	$
Cash and cash equivalents	10,063,511	-	10,063,511	10,063,511
Cash attributable to Ad Fund	155,162	-	155,162	155,162
Accounts receivable	1,857,158	-	1,857,158	1,857,158
Notes receivable	276,575	-	276,575	276,575
Total financial assets	**12,352,406**	**-**	**12,352,406**	**12,352,406**
Payables and accruals	-	1,814,056	1,814,056	1,814,056
Notes payable	-	612,903	612,903	612,903
Long-term debt	-	15,944,629	15,944,629	15,944,629
Contingent consideration	-	2,293,057	2,293,057	2,293,057
Total financial liabilities	**-**	**20,664,645**	**20,664,645**	**20,664,645**

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**

(expressed in Canadian dollars)

24 Financial instruments and fair values (continued)

Interest rate risk

The Company's cash is subject to interest rate risk, as it earns and pays interest at prevailing and fluctuating market rates. The Company has a fixed interest rate on its USD dollarGIC of 2.50% per annum and a fixed interest rate on its CAD dollar GIC of 2.00. The Company has fixed rates on notes receivable from franchisees ranging from 5.25% to 6.00% per annum. The Company also has a variable interest rate of prime plus 1.00% per annum on one of its term loans and its line of credit. The Company has a fixed interest rate of 3.50% per annum on two of its term loans. The Company's line of credit facility with a related party has a fixed interest rate of 10% per annum. The truck loans and leases have fixed interest rates ranging from 4.54% 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, 2019, 6 franchisees accounted for 80% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2018 - 6 franchises accounted for 51%). For the year ended December 31, 2019, 3 franchisees accounted for 20% of the Company's revenues related to franchising and licensing (December 31, 2018 - 3 franchisees accounted for 23%). As of December 31, 2019, there were no accounts and notes receivable over 90 days old (December 31, 2018 – 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, 2019, no customer accounted for more than 10% of the accounts receivable balance. For the years ended December 31, 2019 and 2018, no customer accounted for more than 10% of the Company's revenues in this category. As of December 31, 2019, 6% of accounts receivable in this category was over 90 days old (December 31, 2018 – 6%). As at December 31, 2019, the Company recorded an allowance for credit losses from receivables of $2,292 related to corporate operations (December 31, 2018 - $2,407). 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:

	2019	2018
	$	$
Past due but not impaired		
60 to 90 days	126,239	83,960
91 days to 180 days	89,378	59,894

Foreign exchange risk

The Company has revenues and costs that are denominated in USD dollars; this dependency on the USD dollar causes foreign exchange gains when the Canadian dollar depreciates versus the USD dollar. The Company has significant dollar value assets denominated in USD 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 loss of $1,334,233 (December 31, 2018 – gain of $736,630) 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 $137,000 (December 31, 2018 - $50,000).

Exchange rates utilized (USD to CDN):

	2019	2018
	$	$
December 31 close rate	1.2988	1.3638
Average rate	1.3269	1.2957

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 $8,155,826 at December 31, 2019 (December 31, 2018 - $3,490,360), are due to be settled within one year from the date of the statement of financial position. The Company has current assets of $12,588,097 at December 31, 2019 (December 31, 2018 - $10,778,632) including cash and cash equivalents of $10,063,511 (December 31, 2018 - $8,830,669).

(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	1,511,068	302,988	-	-
Notes payable	98,788	292,510	221,605	-
Contingent consideration	1,129,298	1,002,156	161,603	-
Long-term debt	720,737	2,154,654	13,069,244	-
Lease liabilities	207,225	598,695	1,871,262	35,308

Interest	**Less than 3 months** $	**3 months to 1 year** $	**2 – 5 years** $	**Over 5 years** $
Notes payable	5,874	12,336	4,838	-
Long-term debt	158,811	426,781	1,282,665	-
Lease liabilities	40,377	102,117	177,638	799

Total principal and interest	**Less than 3 months** $	**3 months to 1 year** $	**2 – 5 years** $	**Over 5 years** $
Accounts payable and accrued liabilities	1,511,068	302,988	-	-
Notes payable	104,662	304,846	226,443	-
Contingent consideration	1,129,298	1,002,155	161,603	-
Long-term debt	879,548	2,581,429	14,351,909	-
Lease liabilities	247,602	700,813	2,048,900	36,107

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, 2019	**December 31, 2019**	**December 31, 2019**	**December 31, 2019**
ASSETS	**$**	**$**	**$**	**$**
Current assets				
Cash and cash equivalents	1,424,592	1,003,539	7,635,380	10,063,511
Cash attributable to the Ad Fund	155,162	-	-	155,162
Trade receivables	154,795	1,646,843	55,520	1,857,158
Prepaid expenses	75,185	276,576	36,462	388,223
Notes receivable from franchisees	124,043	-	-	124,043
Total current assets	1,933,777	2,926,958	7,727,362	12,588,097
Non-current assets				
Notes receivable from franchisees	276,575	-	-	276,575
Tangible assets	-	12,029,161	306,429	12,335,590
Intangible assets	13,421	12,793,087	184,408	12,990,916
Goodwill	-	14,102,815	-	14,102,815
Deferred tax asset	-	-	1,475,864	1,475,864
Total assets	2,223,773	41,852,021	9,694,063	53,769,677
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	36,485	1,268,917	508,654	1,814,056
Income taxes payable	7,069	-	-	7,069
Deferred revenue	130,638	-	-	130,638
Contingent consideration	-	2,131,454	-	2,131,454
Notes payable	-	391,298	-	391,298
Lease liability	-	743,648	62,272	805,920
Current portion of long-term debt	-	2,875,391	-	2,875,391
Total current liabilities	174,192	6,667,060	508,654	8,155,826
Non-current liabilities				
Long-term debt	-	13,069,238	-	13,069,238
Deferred revenue	354,538	-	-	354,538
Contingent consideration	-	161,603	-	161,603
Note payable	-	221,605	-	221,605
Lease liability	-	1,708,804	191,766	1,906,570
Total liabilities	528,730	19,728,208	508,654	23,869,380

(expressed in Canadian dollars)

26 Segment reporting (continued)

	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
Tangible assets	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
Deferred revenue	236,821	-	-	236,821
Income taxes payable	-	-	53,543	53,543
Contingent consideration	-	253,180	-	253,180
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	-	415,437	-	415,437
Note payable	-	476,397	-	476,397
Total liabilities	785,797	6,576,186	633,443	7,995,426

(expressed in Canadian dollars)

26 Segment reporting (continued)

Geographic information

	December 31, 2019	December 31, 2018
Canada	**$**	**$**
Tangible assets	306,429	34,793
Intangible assets	184,408	-
United States		
Notes receivable from franchisees	276,575	89,946
Tangible assets	12,029,161	5,801,175
Intangible assets	12,806,507	5,185,990
Goodwill	14,102,815	4,812,448
Total		
Notes receivable from franchisees	276,575	89,946
Equipment	12,335,590	5,835,968
Intangible assets	12,990,916	5,185,990
Goodwill	14,102,815	4,812,448

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, 2019			
	Franchising and licensing $	Corporate locations $	Corporate overhead $	Total $
Revenue	2,670,502	19,736,559	-	22,407,061
Direct costs	-	(13,501,741)	-	(13,501,741)
Selling, general and administrative	(1,476,163)	(1,200,022)	(1,184,151)	(3,860,336)
Depreciation and amortization	(18,705)	(3,910,504)	(92,075)	(4,021,283)
Foreign currency loss, net	-	(887,497)	(430,501)	(1,317,998)
Interest expense	-	(307,124)	(322,069)	(629,193)
Interest income	901	16,961	63,354	81,216
Transaction recovery	-	22,557	-	22,557
Gain on sale of assets	-	80,568	-	80,568
Income tax recovery	(106,984)	(8,668)	76,027	(39,625)
Net income (loss)	1,069,551	41,089	(1,889,415)	(778,774)

	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

(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, 2019, the Company earned royalties, service fees and interest income of $171,522 (2018 - $149,858) from this franchise.

28 Subsequent events

During the first quarter of 2020, the global spread of the COVID-19 virus has led to significant disruptions to businesses worldwide, resulting in an economic slowdown. In many countries, including Canada and the United States, measures such as travel bans, quarantines, social distancing and closures of non-essential services have been taken to contain the spread of the virus. Governments have responded with monetary and fiscal interventions to stabilize economic conditions.

The Company has experienced a significant decrease in revenues as many of our non-essential client offices have been temporarily closed to reduce the spread of the virus. In response to this reduction, in March and April, 2020, the Company temporarily reduced its workforce across the United States and Canada by means of reductions in hours, reduction in pay and temporary lay offs. In April, 2020, the Company applied for the Paycheck Protection Program in the United States and will be applying to the Canada Emergency Wage Subsidy once it becomes available.

On January 30, 2020, the Company granted 177,000 stock options to non-management Directors of the Company. The stock options were granted at a price of $0.78 with a life of five years, expiring on January 29, 2025.

On March 1, 2020, the Company acquired the Proshred Connecticut business from its franchisee. The total purchase price for the acquisition was approximately USD$4.7 million in aggregate. The consideration paid included cash and contingent consideration. Management is currently in the process of calculating the allocation of the purchase price to identifiable assets, intangible assets and goodwill. The acquisition included on-site paper shredding trucks, client relationships and other assets used in the shredding business. The Company views this acquisition as accretive to its cash flows and earnings per share. The acquisition was financed by utilizing cash reserves.

On March 31, 2020, the Company advanced $2.69 million on its non-revolving term loan related to the Connecticut acquisition. The term loan has an amortization of 84 months and bears interest at 2.99% per annum.