RediShred Capital Corp.

Consolidated Financial Statements

December 31, 2020 and 2019

(expressed in Canadian dollars)

April 15, 2021

Management’s Responsibility for the Financial Statements

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

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

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

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

(signed) “*Jeffrey Hasham*”

Chief Executive Officer

Mississauga, Ontario

(signed) “*Kasia Pawluk*”

Chief Financial Officer

Mississauga, Ontario

Independent auditor's report

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To the shareholders of
RediShred Capital Corp.

Opinion

We have audited the consolidated financial statements of RediShred Capital Corp. and its subsidiaries (the "Group") which comprise the consolidated statements of financial position as at December 31, 2020 and 2019 and the consolidated statements of comprehensive income (loss), consolidated statements of changes in shareholders' 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, 2020 and 2019, 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.

Grant Thornton LLP

Mississauga, Canada	Chartered Professional Accountants
April 15, 2021	Licensed Public Accountants

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at December 31, 2020 and December 31, 2019

(expressed in Canadian dollars)

	2020 $	2019 $
Assets		
Current assets		
Cash and cash equivalents	2,844,451	10,063,511
Cash attributable to the Growth Fund (note 5)	139,370	155,162
Trade receivables (note 6)	2,116,626	1,857,158
Prepaid expenses	336,041	388,223
Notes receivable from franchisees (note 7)	63,669	124,043
Total current assets	5,500,157	12,588,097
Non-current assets		
Notes receivable from franchisees (note 7)	242,903	276,575
Tangible assets (note 9)	15,215,019	12,335,590
Intangible assets (note 10)	17,324,197	12,990,916
Goodwill (note 11)	19,747,975	14,102,815
Deferred tax asset (note 23)	657,543	1,475,684
Total non-current assets	53,187,637	41,181,580
Total assets	58,687,794	53,769,677
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,177,770	1,814,056
Deferred revenue	163,571	130,638
Income taxes payable	-	7,069
Current portion of long-term debt (note 15)	3,475,613	2,875,391
Notes payable (note 13)	261,950	391,298
Lease liability (note 16)	1,080,653	805,920
Contingent consideration (note 14)	888,696	2,131,454
Total current liabilities	8,048,253	8,155,826
Non-current liabilities		
Long-term debt (note 15)	16,289,454	13,069,238
Deferred revenue	143,774	354,538
Notes payable (note 13)	-	221,605
Lease liability (note 16)	2,770,883	1,906,570
Contingent consideration (note 14)	1,027,794	161,603
Total non-current liabilities	20,231,905	15,713,554
Total liabilities	28,280,158	23,869,380
Shareholders' equity		
Capital stock (note 18)	35,564,756	35,543,272
Contributed surplus	1,170,931	1,056,504
Accumulated foreign currency translation loss	(570,759)	(666,286)
Deficit	(5,757,292)	(6,033,193)
	30,407,636	29,900,297
Total liabilities and shareholders' equity	58,697,794	53,769,677

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 Income (Loss)
For the years ended December 31, 2020 and 2019
(expressed in Canadian dollars)

	2020	2019
	$	$
Revenue (note 19)	25,436,809	22,407,061
Corporate operating locations expenses (note 20)	(16,042,501)	(13,501,741)
Depreciation – tangible assets	(3,701,097)	(2,634,620)
Selling, general and administrative expenses (note 21)	(3,456,162)	(3,860,336)
Total expenses	(23,199,760)	(19,996,697)
Operating income	2,237,049	2,410,364
Interest expense	(1,003,273)	(629,193)
Interest income	89,180	81,216
Government assistance (note 22)	1,909,494	-
Gain on debt modification (note 15)	113,734	-
Amortization – intangible assets	(2,303,534)	(1,386,663)
Gain on sale of assets	-	80,568
Revaluation of contingent consideration (note 14)	397,179	22,557
Impairment of goodwill (note 12)	(586,235)	-
Foreign exchange loss	(1,110,850)	(1,317,998)
Loss before income taxes	(257,256)	(739,149)
Income tax recovery (expense) (note 23)	533,157	(39,625)
Net income (loss) for the year	275,901	(778,774)
Other comprehensive income (loss)		
Foreign currency translation gain (loss)	95,527	(16,593)
Comprehensive income (loss) for the year	371,428	(795,367)
Net income (loss) per share		
Basic	0.004	(0.011)
Diluted	0.004	(0.011)
Weighted average number of commons shares outstanding – basic	78,690,701	72,449,429
Weighted average number of commons shares outstanding – diluted	79,304,547	74,449,429

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, 2020 and 2019

(expressed in Canadian dollars)

	Capital stock and warrants $ (note 18)	Contributed surplus $	Accumulated foreign currency translation income (loss) $	Deficit $	Total shareholders' equity $
Balance – January 1, 2019	24,961,090	890,757	(649,893)	(5,254,419)	19,947,535
Net loss for the period	–	–	–	(778,774)	(778,774)
Foreign currency translation loss	–	–	(16,393)	–	(16,393)
Comprehensive loss for the period					(795,167)
Issue of shares (note 18)	10,582,182	1,665	–	–	10,583,847
Stock-based compensation (note 18)	–	164,082	–	–	164,082
Balance – December 31, 2019	35,543,272	1,056,504	(666,286)	(6,033,193)	29,900,297
Net income for the period	–	–	–	275,901	275,901
Foreign currency translation gain	–	–	95,527	–	95,527
Comprehensive income for the period					371,428
Issue of shares (note 18)	21,484	(5,294)	–	–	16,190
Stock-based compensation (note 18)	–	119,721	–	–	119,721
Balance – December 31, 2020	35,564,756	1,170,931	(570,759)	(5,757,292)	30,407,636

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, 2020 and 2019

(expressed in Canadian dollars)

Cash provided by (used in)	**2020 $**	**2019 $**
Operating activities		
Net income (loss) for the year	275,901	(778,774)
Items not affecting cash		
Amortization of equipment and intangible assets	6,004,632	4,021,283
Stock-based compensation	119,721	164,082
Unrealized foreign currency loss	1,257,483	1,068,475
Gain on sale of assets	–	(80,568)
Revaluation of contingent consideration	(397,179)	(22,557)
Deferred income tax recovery	(764,526)	(61,358)
Impairment of goodwill	586,235	–
Gain on debt modification	(113,734)	–
	6,968,533	4,310,583
Net change in non-cash working capital balances		
Decrease in trade receivables	149,092	145,764
Decrease (Increase) in prepaid expenses	47,442	(177,418)
(Decrease) in deferred revenue	(176,478)	(151,693)
(Decrease) increase in accounts payable and accrued liabilities	(110,963)	452,143
(Decrease) in income taxes payable	–	(119,777)
Net cash from operations	6,877,626	4,459,602
Financing activities		
Issuance of note receivable	(6,985)	(376,652)
Borrowings from long-term debt	6,808,412	1,932,167
Repayment of long-term debt	(2,748,768)	(1,892,267)
Issuance of capital stock (net of fees)	91,108	10,453,990
Repayment of notes receivable from franchisees	97,336	63,115
Repayment of notes payable	(356,358)	(401,401)
Repayment of lease liability	(864,529)	(707,474)
Payment of contingent considerations	(1,981,150)	(1,242,607)
Net cash from financing activities	1,039,066	7,828,871
Investing activities		
Amount paid on acquisitions, net of cash acquired	(12,121,693)	(8,684,429)
Decrease in cash held by Growth Fund	13,047	51,354
Proceeds from sale of assets	–	613,268
Purchase of tangible and intangible assets	(2,558,654)	(2,708,200)
Net cash from investing activities	(14,667,300)	(10,728,006)
Effect of foreign exchange rate changes on cash	(468,452)	(327,625)
Net change in cash for the year	(7,219,060)	1,232,842
Cash – Beginning of year	10,063,511	8,830,669
Cash – End of year	2,844,451	10,063,511

Supplementary cash flow information

Interest received	89,180	81,216
Interest paid	889,239	629,193
Income tax paid	246,207	91,603

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 in the United States, (1) via franchising and (2) via direct operation of twelve corporate shredding locations, as of December 31, 2020.

2 Basis of presentation

These annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as of December 31, 2020. Together, Redishred and its subsidiaries are referred to as "the Company."

The Company has consistently applied the accounting policies used in the preparation of its IFRS statement of financial position at December 31, 2020 and 2019.

During 2020, the global spread of the COVID-19 virus has led to significant disruptions to businesses worldwide, resulting in an economic downturn. 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 in an attempt to stabilize economic conditions. The Company has considered the potential negative impacts and cash flow difficulties of the virus on its franchisees, customers, suppliers and lenders. The impacts and length of time of the COVID-19 pandemic and its impacts are currently unknown. The Company has used the best information available as of December 31, 2020, in determining its estimates and the assumptions that affect the carrying amounts of assets and liabilities and earnings for the period. Actual results could differ from those estimates.

The consolidated financial statements of the Company for the year ended December 31, 2020 were authorized for issue in accordance with a resolution of the Directors on April 15, 2021.

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.

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
Pleasant Point Partners Corp.	Connecticut, United States	USD Dollar
Redishred New England Inc.	Delaware, United States	USD Dollar

3 Significant accounting policies (continued)

New standards adopted during the year

COVID-19 Related Rent Concessions (Amendment to IFRS 16)

On May 28, 2020, the IASB issued COVID-19-Related Rent Concessions (Amendments to IFRS 16). The amendment permits lessees, as a practical expedient, to not assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021. The Company has adopted this amendment in its consolidated financial statements for the annual period beginning on January 1, 2020. For the year ended December 31, 2020, the Company recorded $25,154 of rent concessions as a reduction to selling, general and administrative expenses.

Definition of a Business (Amendment to IFRS 3)

On October 22, 2018, the IASB issued amendments to IFRS 3 Business Combinations, that seek to clarify whether a transaction results in an asset or a business acquisition. The Company has adopted this amendment in its consolidated financial statements for the annual period beginning on January 1, 2020. There was no material impact on the consolidated financial statements.

Definition of Material (Amendments to IAS 1 and IAS 8)

On October 31, 2018, the IASB refined its definition of material and removed the definition of material omissions or misstatements from IAS 8. The Company has adopted this amendment in its consolidated financial statements for the annual period beginning on January 1, 2020. There was no material impact on the consolidated financial statements.

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.

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 income in the statement of comprehensive income (loss).

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. Refer to note 26 for cash and cash equivalent balances by operating segment.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial instruments are classified in one of the following categories: (1) amortized cost, (2) fair value through 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 in 2019 and 2020 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.

3 Significant accounting policies (continued)

Financial instruments (continued)

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 Growth 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 within net income in the consolidated statement of comprehensive income (loss).

Long-term debt

The Company accounts for amendments to long-term debt as a substantial modification if the present value of the cash flows under the terms of the new debt instrument is at least 10 percent different from the present value of the remaining cash flows under the terms of the original instrument. A substantial modification is accounted for as an extinguishment. If the cash flow effect on a present value basis is less than 10 percent, the debt instruments are accounted for as a debt modification. Under a debt modification, the Company accounts for the debt at the net present value of the revised cash flows discounted at the original effective interest rate. The adjustment to the amortized cost of the liability is recognized in the consolidated statement of comprehensive income (loss).

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.

Tangible assets and depreciation

Tangible assets are 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
Right-of-use (“ROU”) assets lease term	1.3 – 7.8 years
Vehicles	3-5 years

3 Significant accounting policies (continued)

Tangible assets and depreciation (continued)

The Company allocates the amount initially recognized in respect of a tangible asset 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 and goodwill

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

The estimated useful lives of these assets are as follows:

Trademarks and intellectual property	10 years
Franchise agreements	5-10 years
Re-acquired franchise rights	1-3 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. 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

Tangible 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.

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

Income tax

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

(i) Current income tax

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

(ii) Deferred income taxes

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

Deferred income taxes are measured at the tax rates that are expected to apply to the year when the asset is realized 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.

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 time, 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. Growth 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 recognized at a point in time 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 at a point in time 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 at a point in time 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.

Government assistance and government grants

Government grants are recognized when there is a reasonable assurance that the grant will be received and that the Company will comply with all conditions related to the grant. A grant without specified future performance conditions is recognized in income when the grant proceeds are receivable. A grant that imposes specified future performance conditions is recognized in income when those conditions are met. Government grants related to current expenses are recognized as income over the period necessary to match them with the related expenses for which they are intended to compensate, on a systematic basis. Government grants in the form of forgivable loans are treated as a government grant when there is reasonable assurance that the Company will meet the terms for forgiveness of a loan. Government grants received before the income recognition criteria are satisfied are presented as a liability in the statement of financial position.

3 Significant accounting policies (continued)

Share-based payments

The Company issues share-based awards to certain employees and non-employee directors whereby they 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.

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.

3 Significant accounting policies (continued)

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.

Classification of liabilities as current or non-current (Amendments to IAS 1)

The IASB has published Classification of Liabilities as Current or Non-Current (Amendments to IAS 1), which clarified the guidance on whether a liability should be classified as either current or non-current. The amendments were as follows:

i) Clarified that the classification of liabilities as current or non-current should only be based on rights that are in place at the end of the reporting period;
ii) Clarified that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
iii) Made clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

This new guidance is effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted. The Company has not assessed the impact of adoption of this guidance. Further, there is current a proposal outstanding that would defer the effective date until January 1, 2023.

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.

4 Critical accounting estimates and judgements (continued)

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.

iv) Useful lives of tangible and definite life 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.

4 Critical accounting estimates and judgements (continued)

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) Business combinations

When the Company conducts an acquisition, judgements are necessary in determining whether the acquisition meets the definition of a business under *IFRS 3 – Business Combinations.* At the date of acquisition, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their respective fair values. Any intangible assets identified are valued using appropriate valuation techniques based on a forecast of the total expected future net cash flows. These valuations are based on assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

In addition, 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 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.

(expressed in Canadian dollars)

5 Growth fund

The Company manages a Growth Fund (formerly referred to as 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. Growth 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 Growth Fund contributions and expenses from the Company owned locations have been eliminated on consolidation.

In response to COVID-19, the Company reduced certain program costs and waived the Growth Fund contributions for the months of March and April 2020.

The Growth Fund related contributions and expenses as well as cash balance as of December 31, 2020 and December 31, 2019 are as follows:

For the year ended,	**December 31, 2020**	**December 31, 2019**
	$	**$**
Growth Fund revenue	193,371	287,407
Growth Fund expenses	(204,068)	(403,263)
Growth Fund net loss	(10,697)	(115,856)

As at,	**December 31, 2020**	**December 31, 2019**
	$	**$**
Cash attributable to the Growth Fund	139,370	155,162

6 Trade and other receivables

Trade receivables include receivables from franchisees and shredding and recycling customers. Other receivables include amounts related to the Canadian Emergency Wage Subsidies and Harmonized Sales Tax (“HST”) refunds. To support franchisees during COVID-19, the Company deferred royalty fee payments related to royalties earned in March and April of 2020 for its franchisees. 82% of franchisees have begun to repay the deferred royalties over a 12-month period. The net trade and other receivables as of December 31, 2020 and 2019 are as follows:

	2020	**2019**
	$	**$**
Trade receivables – corporate locations	1,697,537	1,649,135
Trade receivables – franchising & licensing	323,030	154,795
Total trade receivables	2,020,567	1,803,930
Other receivables	145,177	55,520
Less: Allowance for doubtful accounts	(49,118)	(2,292)
Trade receivables – net	2,116,626	1,857,158

(expressed in Canadian dollars)

7 Notes receivable from franchisees

Notes receivable arise from the financing of the initial franchise fee and from the sale of customer assets when the customer assets are located in the franchisee territories. 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$1,007 to USD$3,736. The payments on the notes mature between dates ranging from June, 2021 to April, 2025.

The notes receivable as of December 31, 2020 and 2019 are as follows:

	2020	**2019**
	$	**$**
Opening balance, January 1	400,618	89,946
Add: issuance of notes	6,985	415,616
Less: repayments	(101,031)	(104,944)
Closing balance, December 31	306,572	400,618
Less: current portion	(63,669)	(124,043)
Long-term portion	242,903	276,575

At December 31, 2020, 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, 2020:

1. On March 1, 2020, the Company acquired the common shares of the Proshred Connecticut (Pleasant Point Partners Corp) business from its franchisee.
2. On December 31, 2020, the Company acquired the assets of the Proshred and Proscan Massachusetts 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 identifiable 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, 2020	Proshred Connecticut	Proshred & Proscan Massachusetts	Total
Exchange rate used	1.33	1.27	
Assets acquired	$	$	$
Net Working capital	166,250	-	166,250
Tangible assets	1,133,567	2,841,483	3,975,050
Customer relationships	2,635,274	3,569,250	6,204,524
Re-acquired franchise rights	173,571	291,767	465,338
Goodwill	3,749,323	2,864,223	6,613,546
Future tax consequences of acquired assets	(1,517,677)	-	(1,517,677)
	6,340,308	9,566,723	15,907,031
Consideration given			
Cash	5,453,000	7,016,751	12,469,751
Contingent consideration (note 14)	767,986	1,208,725	1,976,711
Lease liabilities assumed	119,322	1,341,247	1,460,569
	6,340,308	9,566,723	15,907,031
Acquisition costs (expensed in statement of comprehensive income)	38,997	65,916	104,913

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 13)	294,750	-	294,750
Contingent consideration (note 14)	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

8 Acquisitions (continued)

The contingent consideration liability related to the acquisitions are tied to:

(a) the gross profit (revenue less direct costs) over an 18-month period post acquisition on the Chicago and Connecticut acquisitions;
(b) the selling, general and administrative costs being within a targeted range over a 12-month period post acquisition on the Connecticut acquisition; and
(c) the shredding services over a 36-month period post acquisition on the Massachusetts 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, 2020, would result in estimated revenue of $29,849,712 (compared to reported revenue of $25,436,809) and estimated net income of $594,330 (compared to reported net income of $275,901). In preparing the pro forma results, revenue and costs have been included as if the business was acquired on January 1, 2020 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.

The total revenue of the acquisitions included in the total reported consolidated revenue is $1,799,736. The total income of the acquisitions included in the total reported Statement of Comprehensive Income (Loss) is $259,039.

9 Tangible assets

			December 31, 2020			**December 31, 2019**
	Cost	Accumulated depreciation	**Net carrying value**	Cost	Accumulated depreciation	**Net carrying value**
	$	$	**$**	$	$	**$**
Computer equipment	394,976	(307,389)	**87,587**	313,779	(272,186)	**41,593**
Furniture & fixtures	258,432	(206,729)	**51,703**	255,375	(153,721)	**101,654**
Bins & shredding containers	2,289,375	(1,093,192)	**1,196,183**	1,805,818	(770,287)	**1,035,531**
Shredding vehicles - chassis	5,014,872	(1,928,103)	**3,086,769**	3,888,079	(1,286,009)	**2,602,070**
Shredding vehicles - box	10,915,798	(4,330,229)	**6,585,569**	8,294,951	(2,969,279)	**5,325,672**
Vehicles	192,038	(174,489)	**17,549**	183,062	(145,957)	**37,105**
Baling equipment	475,741	(91,184)	**384,557**	486,530	(34,208)	**452,322**
ROU Office and Warehouse	4,360,993	(1,178,372)	**3,182,621**	2,391,811	(514,062)	**1,877,749**
ROU Truck leases	1,667,463	(1,044,982)	**622,481**	1,700,520	(838,626)	**861,894**
Total tangible assets	25,569,688	(10,354,669)	**15,215,019**	19,319,925	(6,984,335)	**12,335,590**

	December 31, 2019					**December 31, 2020**
	Net carrying value	Additions	Acquisitions	Depreciation	Foreign exchange	**Net carrying value**
	$	$	$	$	$	**$**
Computer equipment	41,593	49,160	35,085	(38,717)	466	**87,587**
Furniture & fixtures	101,654	5,645	-	(56,456)	860	**51,703**
Bins & shredding containers	1,035,531	172,533	351,246	(358,914)	(4,213)	**1,196,183**
Shredding vehicles - chassis	2,602,070	568,363	643,345	(706,207)	(20,802)	**3,086,769**
Shredding vehicles - box	5,325,672	1,326,635	1,471,505	(1,498,457)	(39,786)	**6,585,569**
Vehicles	37,105	-	13,300	(33,234)	378	**17,549**
Baling equipment	452,322	-	-	(60,917)	(6,848)	**384,557**
ROU Office and Warehouse	1,877,749	-	1,460,569	(710,845)	555,148	**3,182,621**
ROU Truck leases	861,894	4,651	-	(237,350)	(6,714)	**622,481**
Total tangible assets	12,335,590	2,126,987	3,975,050	(3,701,097)	478,489	**15,215,019**

	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)	(135,222)	**5,325,672**
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**
ROU Office and Warehouse	-	885,200	291,780	1,241,928	(514,061)	-	(27,098)	**1,877,749**
ROU Truck leases	1,103,204	-	48,253	-	(236,983)	-	(52,580)	**861,894**
Total tangible assets	6,939,172	(218,004)	2,740,662	5,953,353	(2,581,470)	(184,511)	(313,612)	**12,335,590**

The foreign exchange adjustment is a result of the translation of foreign operation tangible assets in US dollars to Canadian dollars at December 31, 2020 and December 31, 2019.

10 Intangible assets

			December 31, 2020			**December 31, 2019**
	Cost	Accumulated amortization	**Net carrying value**	Cost	Accumulated amortization	**Net carrying value**
	$	$	**$**	$	$	**$**
Computer software	427,686	(133,435)	**294,251**	239,690	(41,884)	**197,806**
Re-acquired franchise rights	998,853	(485,667)	**513,186**	553,621	(104,131)	**449,490**
Trademarks & intellectual property	45,911	(825)	**45,086**	-	-	-
Customer relationships	21,161,626	(4,689,952)	**16,471,674**	15,395,138	(3,051,518)	**12,343,620**
Total intangible assets	22,634,076	(5,309,879)	**17,324,197**	16,188,449	(3,197,533)	**12,990,916**

	January 1, 2020					**December 31, 2020**
	Net carrying value	Additions	Acquisitions	Amortization	Foreign exchange	**Net carrying value**
	$	$	$	$	$	**$**
Computer software	197,806	195,074	-	(95,042)	(3,587)	**294,251**
Re-acquired franchise rights	449,490	-	464,101	(405,003)	4,598	**513,186**
Trademarks & intellectual property	-	45,911	-	(825)	-	**45,086**
Customer relationships	12,343,620	-	6,227,799	(1,802,664)	(297,081)	**16,471,674**
Total intangible assets	12,990,916	240,985	6,691,900	(2,303,534)	(296,070)	**17,324,197**

	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**

The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at December 31, 2020 and December 31, 2019. Amortization of intangible assets for the period is included in the statement of comprehensive income (loss). The Company's re-acquired franchise rights and customer relationships are attributed to the Company's franchises and corporately owned locations in the US.

11 Goodwill

The goodwill as of December 31, 2020 and December 31, 2019 is as follows:

	December 31, 2020	**December 31, 2019**
	$	**$**
Opening balance, January 1	14,102,815	4,812,448
Acquisitions	6,613,546	9,663,762
Impairment loss	(586,235)	-
Foreign currency translation	(382,151)	(373,395)
Closing balance, December 31	19,747,975	14,102,815

(expressed in Canadian dollars)

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 indicators of impairment of the Company's long-lived assets during the year ended December 31, 2020 or December 31, 2019 to warrant an analysis to be performed. Goodwill is tested for impairment at least annually.

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 except for North New Jersey. The recoverable amount of the North New Jersey CGU was $5,075,244 which was lower than the carrying amount of the CGU of $5,630,164. Therefore, the Company recorded an impairment loss of $586,235 at December 31, 2020, allocated to the North New Jersey CGU.

The carrying value of goodwill for each CGU at December 31 is identified as follows:

Cash Generating Unit	**2020**	**2019**
	$	$
Syracuse	165,419	169,170
Albany	115,357	117,648
Milwaukee	815,983	834,487
New York City	735,452	752,130
North New Jersey	2,094,255	2,709,648
Kansas City	2,721,120	2,782,827
Chicago	6,587,519	6,736,905
Connecticut	3,648,647	--
Springfield	2,864,223	--
Total goodwill	19,747,975	14,102,815

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.

Based on sensitivity analysis, a reasonable possible change in assumptions would not result in an impairment loss of the CGU's with the exception of the following:

	Range of impairment loss	**Range of discount rates**	**Range of cash flow margins**
	$		
North New Jersey (additional)	$175,000 - $560,000	+0.5% - +1.0%	(2)% - (4)%
Chicago	$265,000 - $680,000	+0.5% - +1.0%	(3)% - (5)%

(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 20% to 23% (December 31, 2019 – 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 2.5% to 19% 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 Notes payable

As of December 31, 2020, the Company has the following related to notes payable:

Range of origination	Range of initial amount	Range of payment (1)	Range of interest per annum	Current portion	Long-term portion	Range of maturity
October 1, 2018 to January 31, 2019	USD$75,000 to USD$550,000	USD$4,534 to USD$19,753	1.25% to 5.00%	CAD$261,950 USD$206,260	-- --	January 31, 2021 to October 5, 2021

(1) Blended monthly payments of principal and interest.

14 Contingent consideration

The Company has recorded contingent consideration liabilities as part of the businesses acquired. The contingent consideration liabilities are paid to the vendors if certain financial results are achieved. During the year ended December 31, 2020, the Company recorded a revaluation gain on contingent consideration of $397,179 related to the Kansas, Chicago and North Virginia acquisitions. In these instances, the contingent consideration was not fully earned due to targeted revenue and gross profit levels not being met in the first twelve months post-closing.

As of December 31, 2020, the Company has the following related to contingent consideration:

Range of origination	Range of initial amount	Current portion	Long-term portion	Range of maturity
March 31, 2017 to December 31, 2020	USD$98,000 to USD$1,223,362	CAD$888,696 USD$699,760	CAD$1,027,794 USD$809,287	March 31, 2021 to December 31, 2023

15 Long-term debt

As of December 31, 2020 and 2019 long-term debt is comprised of:

	2020	2019
	$	$
Bank facilities (i)	15,976,476	13,123,568
Less: transaction costs	(233,433)	(249,957)
Net bank facilities	15,743,043	12,873,611
Truck loans (ii)	4,022,024	3,071,018
Total long-term debt	19,765,067	15,944,629
Less: current portion	(3,475,613)	(2,875,391)
Total long-term debt	16,289,454	13,069,238

Long-term debt principal repayments as at December 31, 2020, stated in Canadian dollars, are as follows:

	2021	2022	2023	2024	2025	2026	2027	Total
	$	$	$	$	$	$	$	$
Principal repayments	3,514,426	3,480,015	3,448,864	3,235,310	2,975,501	2,816,886	527,500	19,998,500

The long-term debt principal repayments have been translated at the closing rate at December 31, 2020 using an exchange rate of USD$1.00 = CAD$1.27

(i) Bank facilities

As of December 31, 2020, 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$12.5 million (advances can be taken in either USD or CAD equivalent, at the Company’s discretion).

(expressed in Canadian dollars)

15 Long-term debt (continued)

(i) Bank facilities (continued)

As of December 31, 2020, the Company has borrowed the following amounts on the non-revolving term loans:

Month of Advance	Initial amount	Interest per annum	Amortization period	December 31, 2020 Balance	December 31, 2019 Balance
	$			$	$
August, 2017[(1)]	2,006,743	4.95%	60 months	–	1,036,817
May, 2019	6,003,210	3.50%	84 months	5,061,933	5,492,638
November, 2019	6,664,242	3.50%	84 months	6,043,111	6,594,113
March, 2020	2,688,000	2.99%	84 months	2,581,834	–
December, 2020	2,289,600	3.33%	84 months	2,289,600	–
Total bank facilities				15,976,478	13,123,568

Note 1: During the year ended December 31, 2020, the Company repaid the outstanding balance of $936,480 on one of its term loans.

In response to the impacts of COVID-19, the Company obtained a deferral of its principal payments, from its financial institution, for a six-month period from April 2020 to September 2020. Interest only payments were made during the six-month period. The Company accounted for this as a debt modification and amended the non-revolving term loans such that the new amounts represent the fair value of the modified debt arrangements. This resulted in a debt discount of $113,734 and was recorded as a gain on debt modification in the consolidated statement of comprehensive income (loss).

As of December 31, 2020, the Company has $1.0 million available on its operating line of credit. All other senior credit facilities were fully utilized as of December 31, 2020.

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

(expressed in Canadian dollars)

15 Long-term debt (continued)

(i) *Bank facilities* (continued)

In response to COVID-19, the Company's financial institution waived the financial covenants required for the year ended December 31, 2020. The bank credit facilities contained financial covenants that required the Company to maintain certain financial ratios and meet certain financial thresholds during the year ended December 31, 2019. The facility contained covenants that required 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.

(ii) Truck loans

The Company has established a USD$1.7 million line of credit for the purchase of shredding vehicles with lender in the United States. The line of credit is available for renewal 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. As of December 31, 2020, the Company has utilized the entire line of credit (December 31, 2019 – USD$1,298,789), which is included in the truck loans balance. The Company has no remaining balance available for use on the line of credit as of December 31, 2020 (December 31, 2019 – USD$401,211).

As of December 31, 2020, the Company has the following related to truck loans:

	Loan value	Carrying value of assets pledged	Range of interest rates	Range of origination dates	Range of maturity dates
	$	$			
Truck loans	4,022,024	4,819,364	3.99% to 6.40%	July 29, 2016 to December 4, 2020	August 5, 2021 to December 4, 2025

(expressed in Canadian dollars)

15 Long-term debt (continued)

(iii) 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 of December 31, 2020, the facility has not been drawn upon (December 31, 2019 - $nil).

16 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 ("ROU") 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 of December 31, 2020
				$
Office and warehouse building	12	October 2020 to August 2025	6%	3,309,585
Shredding vehicles	7	August 2021 to October 2022	5.95% to 6.50%	541,951
Total				**3,851,536**

The total lease payments for the year ended December 31, 2020 were $829,368 (December 31, 2019 - $707,474) of which the total office lease payments were $703,704 (December 31, 2019 – $545,393) and the total truck lease payments were $125,664 (December 31, 2019 - $162,081).

The activity related to the lease liabilities for the years ended December 31 are as follows:

	2020	2019
	$	$
Opening balance, January 1	2,712,490	1,964,811
Acquisitions	1,460,569	1,241,928
Additions	559,279	291,780
Interest expense	(113,393)	(138,028)
Lease payments	(829,368)	(705,315)
Foreign exchange	61,959	57,314
Closing balance, December 31	3,851,536	2,712,490
Less: current portion	1,080,653	805,920
Long-term portion	2,770,883	1,906,570

(expressed in Canadian dollars)

16 Lease liabilities (continued)

The following table outlines the total contractual undiscounted minimum lease payments due as at December 31, 2020:

	Within 1 year	2-5 years	Over 5 years	Total
	$	$	$	$
Lease payments	1,284,000	2,837,848	285,748	4,407,598
Finance charges	(203,347)	(341,600)	(11,113)	(556,060)
Lease liabilities	1,080,653	2,496,248	274,635	3,851,536

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, included in Selling, General and Administrative expense and Corporate Operating Locations expenses. 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 years ended December 31,	2020	2019
	$	$
Short-term leases	63,858	45,010
Variable lease payments	182,932	219,911
Total	246,790	264,921

17 Changes in liabilities arising from financing activities

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

	Contingent consideration	Notes Payable	Long-term debt	Total
	$	$	$	$
Balance as of December 31, 2019	2,293,057	612,903	15,944,629	18,850,589
Cash flows:				
Borrowings	-	-	7,276,456	7,276,456
Repayments	(1,962,443)	(337,362)	(3,216,284)	(5,516,089)
Non cash:				
Additions through acquisitions	1,979,376	-	-	1,979,376
Revaluation gain	(397,179)	-	-	(397,179)
Gain on debt modification	-	-	(113,734)	(113,734)
Foreign exchange	(41,861)	(13,591)	(126,000)	(181,452)
Balance as of December 31, 2020	1,870,950	261,950	19,765,067	21,897,966

(expressed in Canadian dollars)

18 Capital stock

a) Authorized

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

b) Issued and fully paid

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

	Common stock		Warrants		Total	
	Number	**$**	**Number**	**$**	**Number**	**$**
Balance December 31, 2020	78,843,438	34,964,748	1,823,400	600,008	80,666,838	35,564,756
Balance December 31, 2019	78,500,605	34,943,264	1,823,400	600,008	80,324,005	35,543,272

During the year ended December 31, 2020, 342,833 stock options were exercised and common shares were issued for total gross proceeds of $91,108.

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.

c) Weighted average number of common shares

The basic weighted average number of common shares outstanding for the year ended December 31, 2020, was 78,690,701 (December 31, 2019 – 72,449,429). The diluted weighted average number of common shares outstanding for the year ended December 31, 2020, was 79,304,547 (December 31, 2019 – 74,477,053).

(expressed in Canadian dollars)

18 Capital stock (continued)

d) Warrants

The Company issued 2,002,150 warrants on January 23, 2017 as part of a 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. The fair values of the warrants were determined using the Black-Scholes option pricing model. There were no warrants exercised during the year ended December 31, 2020 (28,750 – year ended December 31, 2019). There are 1,823,400 warrants outstanding as of December 31, 2020.

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 7,884,344 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:

	2020		2019	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding – opening	2,050,150	0.52	1,785,500	0.47
Granted	252,000	0.68	347,150	0.76
Exercised	(342,833)	0.22	(72,500)	0.37
Expired	(5,000)	0.10	(10,000)	0.13
Outstanding – closing	1,954,317	0.60	2,050,150	0.52

(expressed in Canadian dollars)

18 Capital stock (continued)

e) Stock options (continued)

The fair value of the 252,000 stock options issued during the year totaled $92,903. The fair value of the options was calculated using the Black-Scholes model using a risk-free interest rate of 0.75% - 1.64%, volatility of 68%, expected life of 5 years and a 0% dividend yield.

For the year ended December 31, 2020, the net stock compensation charge, after adjusting for stock option forfeitures, amounted to $119,721 (for the year ended December 31, 2019 – $164,082).

The following table summarizes the stock options outstanding as at:

				2020			2019
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
0.15	June 1, 2015	–	–	–	300,000	0.42	300,000
0.18	Aug 26, 2015	–	–	–	25,000	0.67	25,000
0.51	May 1, 2017	693,000	1.33	693,000	693,000	2.33	652,375
0.60	June 30, 2017	6,000	1.50	6,000	18,500	2.50	10,750
0.61	Nov 1, 2017	20,000	1.84	15,000	20,000	2.84	10,000
0.55	Mar 15, 2018	305,000	2.20	305,000	305,000	3.20	305,000
0.63	Apr 16, 2018	300,500	2.29	300,500	300,500	3.29	200,334
0.60	May 22, 2018	10,667	2.39	10,667	16,000	3.39	10,667
0.70	Oct 1, 2018	20,000	2.75	10,000	20,000	3.75	5,000
0.62	Jan 30, 2019	124,050	3.08	82,700	124,050	4.08	41,350
0.83	April 11, 2019	185,400	3.28	114,017	185,400	4.28	54,133
0.94	May 21, 2019	10,000	3.39	2,500	10,000	4.39	–
0.88	June 6, 2019	5,000	3.44	1,250	5,000	4.44	–
0.84	Oct 1, 2019	22,700	3.75	5,675	22,700	4.75	–
0.78	Jan 30, 2020	177,000	4.08	59,000	–	–	–
0.51	April 14, 2020	75,000	4.29	75,000	–	–	–
		1,954,317		1,680,309	2,050,150		1,619,609

(expressed in Canadian dollars)

19 Revenue

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

	2020	2019
	$	$
Shredding services	19,468,852	16,018,447
Sale of paper products	2,475,721	2,537,121
Royalties and license fees	1,865,196	2,231,403
Electronic waste services	1,257,191	1,180,990
Growth Fund contributions	193,371	287,407
Franchise fees	176,478	151,693
Total revenue	25,436,809	22,407,061

20 Corporate location expenses

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

	2020	2019
	$	$
Shredding vehicle and related expenses	3,705,656	3,065,046
Acquisition costs	146,575	357,493
Employee wages expense	8,192,458	6,723,608
Employee benefit expense	1,626,514	1,297,147
Office and administration expense	2,371,298	2,058,447
Total corporate operating expenses	16,042,501	13,501,741

21 Selling, general and administrative expenses

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

	2020	2019
	$	$
Employee wages and benefits expense	1,621,095	1,613,031
Share-based compensation	119,721	164,082
Professional fees	388,325	423,659
Acquisition costs	183,960	170,173
Technology	442,121	382,882
Growth Fund expenses (note 5)	204,068	403,263
Other	496,872	703,246
Total selling, general and administrative expenses	3,456,162	3,860,336

(expressed in Canadian dollars)

21 Selling, general and administrative expenses (continued)

Compensation of key management

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

	2020	2019
	$	$
Wages and benefits	819,578	839,697
Share-based compensation	107,629	137,160
Total compensation of key management	927,207	976,857

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

22 Government Assistance

In April 2020, the Company qualified for the Paycheck Protection Program loan (“PPP”) in the United States which has been made available by the US Small Business Administration to eligible US businesses that have been affected by the COVID-19 pandemic. The program helps businesses keep their workforce employed during the COVID-19 crisis by providing relief in the form of a forgivable loan used for payroll costs. As at December 31, 2020, the entire PPP loan has been forgiven and as a result, the amount of $1,568,892 has been recorded within net income in the Statement of Comprehensive Income (Loss) during the year ended December 31, 2020.

In response to the negative economic impact of COVID-19, the Government of Canada announced the Canada Emergency Wage Subsidy (“CEWS”) program in April 2020, retroactive to March 15, 2020. CEWS provides a wage subsidy to eligible employers based on certain criteria, including demonstration of revenue declines as a result of COVID-19. The Company qualified for and accordingly applied for, the CEWS for the period from March 15, 2020 to December 31, 2020. The submissions were approved and the Company received approximately $340,602 from the CEWS program that has been recorded within net income in the Statement of Comprehensive Income (Loss) during the year ended December 31, 2020.

(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:

	2020	2019
	$	$
Net loss before taxes	(257,256)	(739,149)
Statutory income tax rate	26.5%	26.5%
Expected income tax recovery based on above rates	(68,173)	(195,874)
Withholding tax	115,861	-
State tax	-	8,668
Non-deductible expenses	(484,920)	356,297
Recognition of previously unrecognized deferred tax assets	138,182	60,060
Prior year taxes	(399,712)	(32,350)
Effect of foreign tax rates	619	3,151
Other items	164,986	(160,327)
Income tax (recovery) expense	(533,157)	39,625

The enacted tax rate in Canada is 26.50% (2019 - 26.50%) and in the United States is 26.36% (2019 – 26.37%). These rates have been applied in the tax provision calculation.

	2020	2019
	$	$
Provision for (recovery of) income taxes is comprised of:		
Current income taxes	231,369	100,983
Deferred income taxes	(764,526)	(61,358)
	(533,157)	39,625

(expressed in Canadian dollars)

23 Income taxes (continued)

Deferred tax

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

	2020	2019
	$	$
Net deferred income tax asset:		
Taxable temporary difference on property and equipment and intangibles	(4,159,166)	(2,879,930)
Unrealized foreign exchange	926,625	850,674
Non-capital losses	3,890,084	3,504,940
Net deferred income tax asset	657,543	1,475,684

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

	2020	2019
	$	$
Balance, beginning of the year	1,479,512	1,287,496
Recognized in income	764,526	61,358
Recognized directly in shareholders' equity	(68,818)	126,830
Goodwill on acquisition	(1,517,677)	-
Balance, end of the year	657,543	1,479,512

The Company has incurred Canadian non-capital losses of $718,287 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 $14,155, 637 that can be carried forward to reduce taxes payable in the US. The losses expire at various times through December 31, 2039, commencing December 31, 2022.

24 Financial instruments and fair values

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

(expressed in Canadian dollars)

24 Financial instruments and fair values (continued)

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 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, long-term debt and contingent consideration 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 fair value hierarchy during the years ended December 31, 2020 or December 31, 2019.

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

December 31, 2020	**Financial Assets**	**Other Financial Liabilities**	**Total Carrying Amount**	**Fair Value**
	$	$	$	$
Cash and cash equivalents	2,844,451	-	2,844,451	2,844,451
Cash attributable to Growth Fund	139,370	-	139,370	139,370
Accounts receivable	2,116,626	-	2,116,626	2,116,626
Notes receivable	306,572	-	306,572	306,572
Total financial assets	**5,407,019**	**-**	**5,407,019**	**5,407,019**
Payables and accruals	-	2,177,770	2,177,770	2,177,770
Notes payable	-	261,950	261,950	261,950
Long-term debt	-	19,765,067	19,765,067	19,765,067
Contingent consideration	-	1,916,490	1,916,490	1,916,490
Total financial liabilities	**-**	**24,121,277**	**24,121,277**	**24,121,277**

(expressed in Canadian dollars)

24 Financial instruments and fair values (continued)

Fair values (continued)

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 Growth 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**

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 fixed rates on notes receivable from franchisees ranging from 5.25% to 6.00% per annum. The Company's term line of credit has a variable interest rate of prime plus 1.00% per annum. The Company has fixed interest rates ranging from 2.99% to 3.50% per annum on 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 6.40% per annum. The Company's notes payable have fixed interest rates ranging from 1.25% to 5.00%. These financial instruments are subject to interest rate risk, as their fair values will fluctuate as a result of changes in market rates.

The global impact of COVID-19 has resulted in substantial market volatility however the Bank of Canada, the US Federal Reserve and other lenders have taken steps to stabilize interest rates.

(expressed in Canadian dollars)

24 Financial instruments and fair values (continued)

Credit risk

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

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

	2020	2019
	$	$
Past due but not impaired		
60 to 90 days	105,012	126,239
91 days to 180 days	145,904	89,378

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, 2020, six (6) franchisees accounted for 69% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2019 - 6 franchises accounted for 80%). For the twelve months ended December 31, 2020, three (3) franchisees accounted for 23% of the Company's revenues related to franchising and licensing (December 31, 2019 - 3 franchisees accounted for 23%). As of December 31, 2020, there was $145,417 in accounts and notes receivable over 90 days old (December 31, 2019 – nil). To support franchisees during COVID-19, the Company deferred royalty fee payments related to royalties earned in March and April of 2020 for its franchisees. 82% of franchisees have begun to repay the deferred royalties over a 12-month period. 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. As of December 31, 2020, no customer accounted for more than 10% of the accounts receivable balance. For the year ended December 31, 2020 and 2019, no customer accounted for more than 10% of the Company's revenues in this category. As of December 31, 2020, 9% of accounts receivable, net of allowance of doubtful accounts, in this category was over 90 days old (December 31, 2019 – 6%). As at December 31, 2020, the Company recorded an allowance for credit losses from receivables of $49,118 related to corporate operations (December 31, 2019 - $2,292).

The Company has considered the probability of default by its franchisees and customers due to the impact of COVID-19 on businesses and cash flows. The maximum exposure to credit risk is the carrying amount of each class of financial assets. Collection of receivables remain a priority for the Company under the current situation and management assesses collectability remains highly probable.

24 Financial instruments and fair values (continued)

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 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. During the year ended December 31, 2020, the Company recorded a foreign exchange loss of $1,110,030 (December 31, 2019 – loss of $1,317,998). Based on the financial liability held in the United States and denominated in CAD at December 31, 2020, a 5% increase or decrease in exchange rates would impact the Company's net earnings by approximately $62,058 (December 31, 2018 - $137,000).

Exchange rates utilized (USD to CAD):

	December 31, 2020	**December 31, 2019**
	$	**$**
Close rate	1.27	1.30
Average rate	1.34	1.33

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. 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.

Based on overall cash generation capacity and overall financial position, management believes the Company will be able to meet financial obligations as they come due. The current liabilities of $8,032,761 at December 31, 2020 (December 31, 2019 - $8,155,826), are due to be settled within one year from the date of the statement of financial position. The Company has current assets of $5,497,901 at December 31, 2020 (December 31, 2019 - $12,588,097) including cash and cash equivalents of $2,844,451 (December 31, 2019 - $10,063,511).

(expressed in Canadian dollars)

24 Financial instruments and fair values (continued)

Liquidity risk (continued)

Principal	**Less than 3 months**	**3 months to 1 year**	**1 – 5 years**	**Over 5 years**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	1,899,770	278,000	–	–
Notes payable	89,240	172,710	–	–
Long-term debt	856,399	2,619,214	11,919,155	4,370,299
Contingent consideration	251,319	637,377	1,027,794	–
Lease liabilities	257,152	823,501	2,496,248	274,635

Interest	**Less than 3 months**	**3 months to 1 year**	**1 – 5 years**	**Over 5 years**
	$	**$**	**$**	**$**
Notes payable	2,782	2,890	–	–
Long-term debt	178,341	482,775	1,232,232	128,947
Lease liabilities	54,684	148,662	341,600	11,113

Total principal and interest	**Less than 3 months**	**3 months to 1 year**	**1 – 5 years**	**Over 5 years**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	1,899,770	278,000	–	–
Notes payable	92,022	175,600	–	–
Long-term debt	1,034,740	3,101,989	13,151,387	4,499,246
Contingent consideration	251,319	637,377	1,027,794	–
Lease liabilities	311,836	972,163	2,837,848	285,750

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 a banking institution 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 15 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).

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

	Franchising and licensing	Corporate locations	Corporate	Total
	December 31, 2020	December 31, 2020	December 31, 2020	December 31, 2020
ASSETS	$	$	$	$
Current assets				
Cash and cash equivalents	49,887	640,935	2,153,629	2,844,451
Cash attributable to the Growth Fund	139,370	-	-	139,370
Trade and other receivables	1,802,333	192,301	121,992	2,116,626
Prepaid expenses	273,792	17,437	44,812	336,041
Notes receivable from franchisees	63,669	-	-	63,669
Total current assets	2,329,051	850,673	2,320,433	5,500,157
Non-current assets				
Notes receivable from franchisees	242,903	-	-	242,903
Tangible assets	-	15,015,740	199,279	15,215,019
Intangible assets	74,696	16,982,930	266,570	17,324,196
Goodwill	-	19,747,975	-	19,747,975
Deferred tax asset	-	-	657,543	657,543
Total assets	2,646,650	52,597,318	3,443,825	58,687,793
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	164,338	1,458,129	555,303	2,177,770
Deferred revenue	163,571	-	-	163,571
Current portion of long-term debt	-	3,475,613	-	3,475,613
Notes payable	-	261,950	-	261,950
Lease liabilities	-	1,013,830	66,823	1,080,653
Contingent consideration	-	888,696	-	888,696
Total current liabilities	327,909	7,098,218	622,126	8,048,253
Non-current liabilities				
Long-term debt	-	16,289,454	-	16,289,454
Deferred revenue	143,774	-	-	143,774
Lease liabilities	-	2,639,941	130,942	2,770,883
Contingent consideration	-	1,027,794	-	1,027,794
Total liabilities	471,683	27,055,407	753,068	28,280,158

(expressed in Canadian dollars)

26 Segment reporting (continued)

	Franchising and licensing	Corporate locations	Corporate	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 Growth 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	-	-	1,475,684	1,475,684
Total assets	2,223,773	41,852,021	9,693,883	53,769,677
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	36,485	1,268,917	508,654	1,814,056
Deferred revenue	130,638	-	-	130,638
Income taxes payable	7,069	-	-	7,069
Current portion of long-term debt	-	2,875,391	-	2,875,391
Notes payable	-	391,298	-	391,298
Lease liability	-	743,648	62,272	805,920
Contingent consideration	-	2,131,454	-	2,131,454
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
Note payable	-	221,605	-	221,605
Lease liability	-	1,708,804	191,766	1,906,570
Contingent consideration	-	161,603	-	161,603
Total liabilities	528,730	19,728,208	508,654	23,869,380

(expressed in Canadian dollars)

26 Segment reporting (continued)

Geographic information

	December 31, 2020	December 31, 2019
Canada	$	$
Tangible assets	199,279	306,429
Intangible assets	266,570	184,408
United States		
Notes receivable from franchisees	306,572	276,575
Tangible assets	15,015,740	12,029,161
Intangible assets	17,057,626	12,806,507
Goodwill	19,747,975	14,102,815
Total		
Notes receivable from franchisees	306,572	276,575
Tangible assets	15,215,019	12,335,590
Intangible assets	17,324,196	12,990,916
Goodwill	19,747,975	14,102,815

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, 2020			
	Franchising and licensing	**Corporate locations**	**Corporate**	**Total**
	$	**$**	**$**	**$**
Revenue	2,235,044	23,201,765	–	25,436,809
Direct costs	–	(16,042,501)	–	(16,042,501)
Selling, general and administrative	(1,222,339)	(1,512,366)	(721,457)	(3,456,162)
Depreciation – tangible assets	–	(3,586,613)	(114,484)	(3,701,097)
Operating income (loss)	1,012,705	2,060,285	(835,941)	2,237,049
Interest expense	–	(1,003,273)	–	(1,003,273)
Interest income	16,640	–	72,540	89,180
Other income	–	1,568,892	340,602	1,909,494
Gain on debt modification	–	113,734	–	113,734
Amortization – intangible assets	(51,049)	(2,209,621)	(42,864)	(2,303,534)
Revaluation of contingent consideration	–	397,179	–	397,179
Impairment of goodwill	–	(586,235)	–	(586,235)
Foreign exchange loss	–	–	(1,110,850)	(1,110,850)
Income tax (expense) recovery	(283,931)	1,246,821	(429,733)	533,157
Net income (loss)	694,365	1,587,782	(2,006,246)	275,901

(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** $	**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)
Operating income (loss)	1,194,339	2,486,819	1,270,795	2,410,364
Interest expense	-	(307,124)	(322,069)	(629,193)
Interest income	901	16,961	63,354	81,216
Amortization – intangible assets	(18,705)	(1,362,528)	(5,431)	(1,386,663)
Revaluation of contingent consideration	-	22,557	-	22,557
Gain on sale of assets	-	80,568	-	80,568
Foreign exchange loss	-	-	(1,317,998)	(1,317,998)
Income tax (expense) recovery	(106,984)	(8,668)	76,027	(39,625)
Net income (loss)	1,069,551	41,089	(1,889,415)	(778,774)

27 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. There is an accounts receivable balance of $22,775 due from this franchise as at December 31, 2020 (December 31, 2019 - $nil). During the twelve months ended December 31, 2020, the Company earned royalties, franchise and service fees of $172,984 (December 31, 2019 - $171,522) from this franchise.

28 Subsequent events

In February and March 2021, the Company qualified for the second draw on the Paycheck Protection Program loan in the United States. The Company received USD$1.0 million under the program of which up to the full amount of the loan may be forgiven if the proceeds are used to cover payroll, rent and other operating costs. Any portion of the loan that is not forgiven will be repayable over a two-year term at an interest rate of 1.00% per annum with payments deferred for the first 16 months.