RediShred Capital Corp.

Consolidated Financial Statements
December 31, 2017 and 2016

(expressed in Canadian dollars)

April 11, 2018

Management's Responsibility for the Financial Statements

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

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

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

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

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

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

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Independent auditor's report

To the Shareholders of RediShred Capital Corp.

We have audited the accompanying consolidated financial statements of RediShred Capital Corp. which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the statements of consolidated comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2017 and 2016, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of RediShred Capital Corp. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and 2016 in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Mississauga, Canada
April 11, 2018

Chartered Professional Accountants
Licensed Public Accountants

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at December 31, 2017 and 2016

(expressed in Canadian dollars)

	December 31, 2017 $	December 31, 2016 $
Assets		
Current assets		
Cash and cash equivalents	2,245,533	1,046,896
Cash attributable to the Advertising Fund (note 5)	193,776	261,304
Income taxes receivable	–	21,457
Trade receivables (note 6)	972,987	878,243
Prepaid expenses	160,791	159,586
Notes receivable from franchisees (note 7)	84,988	89,429
Total current assets	3,658,075	2,456,915
Non-current assets		
Notes receivable from franchisees (note 7)	19,238	109,861
Tangible assets (note 9)	3,772,234	3,222,547
Intangible assets (note 10)	1,878,120	2,374,679
Goodwill (notes 11 and 12)	1,720,437	1,837,398
Deferred tax asset (note 22)	457,728	–
Total non-current assets	7,847,757	7,544,485
Total assets	11,505,832	10,001,400
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 13)	913,594	1,128,913
Current income taxes payable (note 22)	51,193	–
Current portion of long-term debt (note 14)	1,114,882	5,619,461
Current portion of notes payable (note 15)	122,357	33,180
Current portion of contingent consideration	44,790	33,568
Total current liabilities	2,246,816	6,815,122
Non-current liabilities		
Long-term debt (note 14)	2,522,261	2,050,369
Long-term notes payable (note 15)	26,206	58,171
Contingent consideration	20,105	–
Deferred tax liability (note 22)	–	207,044
Convertible debentures (note 18)	–	352,176
Total non-current liabilities	2,568,572	2,667,760
Total liabilities	4,815,388	9,482,882
Shareholders’ equity		
Capital stock (note 17)	14,062,379	8,590,995
Contributed surplus	647,283	512,518
Accumulated foreign currency translation loss	(747,323)	(496,250)
Deficit	(7,271,895)	(8,088,745)
	6,690,444	518,518
Total liabilities and shareholders’ equity	11,505,832	10,001,400

Commitments (note 23)

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

Approved on behalf of the Board of Directors

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

(signed) “*Brad Foster*” Director

RediShred Capital Corp.

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2017 and 2016

(expressed in Canadian dollars)

	2017 $	2016 $
Revenue (note 19)	11,336,499	9,599,303
Corporate operating locations expenses (note 20)	(5,721,359)	(4,873,940)
Depreciation – tangible assets	(969,287)	(614,301)
Selling, general and administrative expenses (note 21)	(2,709,629)	(2,335,879)
Total expenses	(9,400,275)	(7,824,120)
Operating income	1,936,224	1,775,183
Amortization – intangible assets	(973,812)	(924,470)
Foreign exchange (loss) gain	(293,047)	69,318
Gain (loss) on sale of assets	3,450	(136,016)
Interest expense	(354,230)	(755,587)
Interest income	7,376	7,861
Income before income taxes	325,961	36,289
Income tax recovery (note 22)	490,889	137,599
Net income for the year	816,850	173,888
Other comprehensive loss		
Foreign currency translation loss	(251,073)	(275,512)
Comprehensive income (loss) for the year	565,777	(101,624)
Net income per share		
Basic and diluted	0.01	0.00
Weighted average number of commons shares outstanding – basic	46,017,909	28,885,233
Weighted average number of commons shares outstanding – diluted	47,089,982	29,693,461

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, 2017 and 2016

(expressed in Canadian dollars)

	Capital stock and warrants $ (note 17)	Contributed surplus $	Accumulated foreign currency translation loss $	Deficit $	Total shareholders' equity/(deficiency) $
Balance – January 1, 2016	8,585,808	427,575	(220,738)	(8,262,633)	530,012
Net income for the year	–	–	–	173,888	173,888
Other comprehensive loss					
Foreign currency translation loss	–	–	(275,512)	–	(275,512)
Comprehensive income for the year					(101,624)
Issue of shares (note 17)	5,187	(2,187)	–	–	3,000
Stock-based compensation (note 17)	–	87,130	–	–	87,130
Balance – December 31, 2016	8,590,995	512,518	(496,250)	(8,088,745)	518,518
Net income for the year	–	–	–	816,850	816,850
Other comprehensive income					
Foreign currency translation loss	–	–	(251,073)	–	(251,073)
Comprehensive income for the year					565,777
Issue of shares (note 17)	4,860,869	(159,224)	–	–	4,641,367
Issue of warrants (note 17)	610,515	–	–	–	670,793
Stock-based compensation (note 17)	–	293,989	–	–	293,989
Balance – December 31, 2017	14,062,379	647,283	(747,323)	(7,271,895)	6,690,444

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, 2017 and 2016

(expressed in Canadian dollars)

Cash provided by (used in)	2017 $	2016 $
Operating activities		
Net income for the year	816,850	173,888
Items not affecting cash		
Amortization of equipment and intangible assets	1,943,099	1,550,902
Stock-based compensation	293,989	87,130
Unrealized foreign currency loss (gain)	350,632	(46,348)
(Gain) loss on sale of assets	(3,450)	136,016
Revaluation of contingent consideration	–	(33,567)
Deferred income tax recovery	(667,216)	(199,706)
	2,733,904	1,668,315
Net change in non-cash working capital balances		
(Increase) decrease in trade receivables	(168,044)	45,846
(Increase) in prepaid expenses	(9,416)	(59,804)
(Decrease) increase in accounts payable and accrued liabilities	(174,045)	121,989
Increase in income taxes payable	51,193	–
Decrease (increase) decrease in income taxes receivable	20,779	(21,184)
Net cash from operations	2,454,371	1,755,162
Financing activities		
Borrowings from long-term debt	2,682,961	739,674
Repayment of long-term debt	(6,063,318)	(1,236,882)
Issuance of capital stock	4,301,335	3,000
Repayment of notes receivable from franchisees	85,161	848
Repayment of notes payable	(94,081)	(42,919)
Payment of contingent considerations	(130,199)	–
Net cash from financing activities	781,859	(536,279)
Investing activities		
Cash paid on acquisitions	(1,071,362)	–
Decrease (increase) in cash held by advertising fund	52,589	(89,259)
Proceeds from sale of equipment	247,541	273,012
Purchase of equipment	(1,191,306)	(1,209,049)
Net cash from investing activities	(1,962,538)	(1,025,296)
Effect of foreign exchange rate changes on cash	(75,055)	5,112
Net change in cash for the year	1,198,637	198,699
Cash – Beginning of year	1,046,896	848,197
Cash – End of year	2,245,533	1,046,896
Supplementary cash flow information		
Interest received	7,376	7,861
Interest paid	354,230	748,219
Income tax paid	–	–

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

(expressed in Canadian dollars)

1 Corporate information and nature of operations

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

Redishred manages and operates the Proshred brand and business platform (“system”) in the United States and internationally. Redishred operates the Proshred system under three business models, (1) franchising in the United States, (2) via direct ownership of shredding trucks and facilities in seven locations in the United States, as of December 31, 2017 and, (3) licensing internationally.

2 Basis of presentation

These annual consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. The Company has consistently applied the accounting policies used in the preparation of its IFRS statement of financial position at December 31, 2017 and 2016.

These consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as at December 31, 2017. Together, Redishred and its subsidiaries are referred to as “the Company.”

The consolidated financial statements of the Company for the year ended December 31, 2017 were authorized for issue in accordance with a resolution of the Directors on April 11, 2018.

3 Significant accounting policies

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

Basis of measurement

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

Basis of consolidation

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

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

The Company's wholly-owned subsidiaries include:

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

Segment reporting

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

Foreign currency translation

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

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

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

Cash and cash equivalents

The Company's cash balances are held in bank accounts in Canada and the United States, which the Company has full access to. The Company also has a $500,000 redeemable Guaranteed Investment Certificate (GIC) held with the Bank of Montreal. The GIC bears interest at 1.10% per annum. Refer to note 25 for cash and cash equivalent balances by operating segment.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial 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. Financial assets and liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. Transaction costs in respect of an asset or liability not recorded at fair value through net earnings are added to the initial carrying amount. Transaction costs relating to the issuance of the senior credit facility obtained on July 28, 2017 are amortized over the term of the facility, which expires on July 28, 2022. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company’s financial instruments categorized as loans and receivables are comprised of cash, cash attributable to the Advertising Fund, trade receivables and notes receivable from franchisees. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, these instruments are accounted for at amortized cost using the effective interest rate method less a provision for impairment.

ii) Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable, accrued liabilities, notes payable, convertible debentures 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, notes payable and convertible debentures are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. They are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

iii) Fair value through profit and loss (“FVTPL”)

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

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Impairment of financial assets

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

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

(i) significant financial difficulty of the obligor;

(ii) delinquencies in interest or principal payments; and

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

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

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

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

Equipment and depreciation

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

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

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

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Equipment and depreciation (continued)

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

Intangible assets and amortization

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

The estimated useful lives of these assets are as follows:

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

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

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

Impairment of non-financial assets

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

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Impairment of non-financial assets (continued)

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

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

Income tax

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

(i) Current income tax

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

(ii) Deferred income taxes

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

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

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Revenue recognition

(i) Franchising and licensing business

The Company earns revenue from initial franchise and license fees paid to secure territories for a specific period and from royalties, license and service fees paid as a percentage of the franchisees' monthly sales volumes. The initial franchise or license fee is recognized as revenue when the franchisee or licensee has fully executed a franchise or license agreement has been provided the required training and the collection of the initial fee is reasonably assured. 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.

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

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

Share-based payments

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

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

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Convertible debentures

Convertible debentures are separated into liability and equity components based on the terms of the contract. On issuance of the convertible debentures, the fair value of the liability component is determined using a market rate for an equivalent non-convertible debenture. This amount is classified as a financial liability measured at amortized cost (net of transaction costs) until it is extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option and is recognised and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not re-measured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible debenture based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

Business combinations

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

Earnings per share

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

New accounting standards adopted during the year

The Company had adopted the following amendments effective January 1, 2017:

IAS 7 Amendments, Disclosures related to financing activities

The IASB issued amendments to *IAS 7 – Statement of Cash Flows* to require disclosures about changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. See note 16 for additional information regarding the changes in liabilities from financing activities.

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.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Accounting standards and amendments issued but not yet effective (continued)

IFRS 9 – Financial Instruments: Classification and Measurement

In July 2014, the IASB reissued IFRS 9 which replaced IAS 39. The replacement standard has the following significant components: establishes two primary measurement categories for financial assets – amortized cost and fair value; establishes criteria for classification of financial assets within the measurement category based on business model and cash flow characteristics; and eliminates existing held to maturity, available for sale and loans and receivable categories.

This standard will be effective for periods beginning on or after January 1, 2018. The Company is in the process of reviewing the standard to determine its impact on the consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 which replaces IAS 18 for the accounting of revenue. The standard establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

This standard will be effective for periods beginning on or after January 1, 2018. The Company is in the process of reviewing the standard to determine its impact on the consolidated financial statements.

IFRS 16 – Leases

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

This standard is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances. The Company will evaluate the impact of the change to its consolidated financial statements based on the characteristics of its financial instruments at the time of adoption.

(expressed in Canadian dollars)

4 Critical accounting estimates and judgements

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

Significant accounting judgements

i) Functional currency

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

Significant accounting estimates

i) Impairment

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

ii) Deferred income taxes

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

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

(expressed in Canadian dollars)

4 Critical accounting estimates and judgements (continued)

Significant accounting estimates (continued)

iii) Useful lives of tangible and intangible assets

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

5 Advertising fund

The Company manages an advertising fund (the "Ad Fund") established to collect and administer funds contributed for use in regional and national advertising programs, and amongst other things, initiatives designed to increase sales and enhance general public recognition, acceptance and use of the Proshred System. Contributions to the Ad Fund are required to be made from both franchised and Company owned and operated locations and are based on the annual level of revenue from each location. In accordance with *IAS 18 – Revenue*, the revenue and expenses of the Ad Fund are recorded net in the Company's statements of financial position because the contributions to the Ad Fund are segregated, designated for a specific purpose, and the Company acts, in substance, as an agent with regard to these contributions. As at December 31, 2017, the cash attributable to the Ad Fund amounted to $193,776 (2016 - $261,304).

6 Trade receivables

Trade receivables include receivables from franchisees and receivables from shredding and recycling customers. The trade receivables as at December 31, 2017 are as follows:

	2017	2016
	$	$
Trade receivables	975,206	878,243
Less: Allowance for doubtful accounts	(2,219)	–
Trade receivables – net	972,987	878,243

(expressed in Canadian dollars)

7 Notes receivable from franchisees

Notes receivable arise from the financing of the initial franchise fee by franchisees and are guaranteed by the respective owners of the franchises. The notes receivable bear interest rates ranging from 4.25% to 5.25% per annum with monthly blended payments of principal and interest ranging from US$595 to US$2,400. The payments on the notes commenced between dates ranging from January 1, 2014 to January 1, 2017 and mature between dates ranging from February 1, 2018 to October 31, 2019.

The notes receivable as at December 31, 2017 are as follows:

	2017	2016
	$	$
Principal	104,226	199,290
Less: Current portion	(84,988)	(89,429)
	19,238	109,861

At December 31, 2017, 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

On March 31, 2017, the Company acquired the Proshred Northern Virginia business from an existing franchisee. The Company conducted the acquisition to increase the Company's long-term cash flows, and to enter into a growing market. The purchase price was allocated to the assets acquired (including all identifiable intangible assets arising from the purchase) based on their estimated fair value at the date of the acquisition. The business combination also resulted in the removal of the original franchise agreement intangible asset between the Company's subsidiary, Proshred Franchising Corp. and the franchisee. The Company removed the original franchise agreement intangible asset in the amount of $24,254. Refer to note 10.

The following table outlines the assets purchased and consideration given on the closing date of the acquisition.

	CDN $	USD $
Assets acquired		
Net Working capital	95,164	71,551
Tangible assets	778,519	585,353
Customer relationships	532,000	400,000
Re-acquired franchise rights	45,661	34,332
Removal of original franchise agreement (note 10)	(24,254)	(18,236)
	1,427,090	1,073,000
Consideration given		
Cash	1,064,000	800,000
Note payable (note 15)	166,250	125,000
60-day holdback	66,500	50,000
Contingent consideration	130,340	98,000
	1,427,090	1,073,000
Acquisition costs (expensed in statement of comprehensive income)	9,434	7,093

(expressed in Canadian dollars)

8 Acquisition of franchise (continued)

The Company translated the fair values of all assets acquired and consideration given using the exchange rate on the date of the acquisition. In the above table, the acquisition was translated at $1USD = $1.33CAD. On December 31, 2017, the assets and liabilities acquired are converted at the year-end rate at $1USD = 1.257CAD in the Statement of Financial Position.

As part of the purchase price, on March 31, 2017, the Company committed to a note payable of US$125,000, providing monthly payments of US$5,208 over a 24 month period, referred to as the Note payable. The Company recorded the Note payable at fair value in accordance with IAS 39 *Financial Instruments: Recognition and Measurement.* Subsequent to the acquisition date, the Company has measured the Note payable at amortized cost using the effective interest method.

The contingent consideration liability is tied to the execution of the US government contract and incremental government contract sales for a period of 48 months. The US government contract was executed during the year ended December 31, 2017 and US$75,000 was paid. The remaining balance will be paid if incremental government contract sales are earned.

On September 30, 2017, the Company acquired a customer list in Buffalo, New York. The estimated fair value at the date of acquisition was $67,704 (US$54,250). The Company translated the fair value of the customer list and consideration given using the exchange rate on the date of the acquisition ($1USD = 1.248CAD). On December 31, 2017, the customer list acquired is converted at the year-end rate at $1USD = 1.257CAD in the Statement of Financial Position. As part of the purchase price, the Company recorded a contingent consideration liability tied to the retention of clients over a 12 month period.

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

The pro forma consolidated results of the Company, as if the acquisition of Proshred Northern Virginia and Buffalo had been made at the beginning of the year, would include estimated revenue of $11,642,000 (compared to reported revenue of $11,336,499) and estimated net income of $855,000 (compared to reported net income of $816,850). In preparing the pro forma results, revenue and costs have been included as if the business was acquired on January 1, 2017 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 Proshred Northern Virginia revenue of $981,854 and net income of $76,613 is included in the Statement of Comprehensive Income (Loss).

(expressed in Canadian dollars)

9 Equipment

Cost	Computer equipment	Furniture & fixtures	Bins & shredding containers	Shredding vehicles - chassis	Shredding vehicles - box	Vehicles	Total
	$	$	$	$	$	$	$
As at January 1, 2016	153,878	92,577	497,529	1,133,754	2,886,470	56,887	4,821,095
Additions	49,224	1,938	82,242	333,702	720,300	16,990	1,204,396
Sale of assets	-	-	-	(186,415)	(463,366)	-	(649,781)
Fully depreciated	7,372	11,030	(4,041)	(51,454)	(164,091)	6,092	(195,092)
Foreign exchange	(4,019)	1,390	(14,967)	(35,368)	(88,679)	(1,516)	(143,159)
As at December 31, 2016	206,455	106,935	560,763	1,194,219	2,890,634	78,453	5,037,459
Additions	44,901	40,284	71,033	258,590	723,099	24,446	1,162,353
Sale of assets	(219)	(343)	-	(70,212)	(178,490)	-	(249,264)
Acquisitions (note 8)	3,325	3,325	83,339	227,656	447,574	13,300	778,519
Foreign exchange	(5,446)	(1,457)	(36,307)	(100,836)	(241,251)	(4,673)	(389,970)
As at December 31, 2017	249,016	148,744	678,828	1,509,417	3,641,566	111,526	6,339,097

Accumulated depreciation	Computer equipment	Furniture & fixtures	Bins & shredding containers	Shredding vehicles - chassis	Shredding vehicles - box	Vehicles	Total
	$	$	$	$	$	$	$
As at January 1, 2016	140,994	74,358	267,800	301,110	837,503	44,138	1,665,903
Depreciation	23,617	7,204	95,511	139,226	343,441	20,202	629,201
Sale of assets	(485)	-	-	(67,413)	(167,972)	-	(235,870)
Fully depreciated	7,371	11,199	(4,041)	(51,452)	(164,091)	6,092	(194,922)
Foreign exchange	(1,369)	(728)	(8,112)	(10,521)	(27,535)	(1,135)	(49,400)
As at December 31, 2016	170,128	92,033	351,158	310,950	821,346	69,297	1,814,912
Depreciation	39,825	13,953	94,168	234,065	545,109	19,107	946,227
Sale of assets	-	-	-	(21,987)	(51,278)	-	(73,265)
Foreign exchange	(3,627)	(868)	(22,929)	(26,415)	(63,527)	(3,645)	(121,011)
As at December 31, 2017	206,326	105,118	422,397	496,613	1,251,650	84,759	2,566,863
Net book value							
As at December 31, 2016	36,327	14,902	209,605	883,269	2,069,288	9,156	3,222,547
As at December 31, 2017	42,690	43,626	256,431	1,012,804	2,389,916	27,767	3,772,234

The foreign exchange adjustment is a result of the translation of corporate equipment from US dollar functional currency in the acquiring company to Canadian presentation dollars at December 31, 2017 and December 31, 2016.

(expressed in Canadian dollars)

10 Intangible assets

Cost	**Franchise agreements**	**Proshred system**	**Trademarks & intellectual property**	**Re-acquired franchise rights**	**Customer relationships**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
As at January 1, 2016	3,220,443	978,000	1,672,500	1,312,031	2,810,666	9,993,640
Additions	-	-	-	-	11,291	11,291
Foreign exchange	(100,804)	-	-	(39,152)	(83,877)	(223,833)
As at December 31, 2016	3,119,639	978,000	1,672,500	1,272,879	2,738,080	9,781,098
Acquisitions (note 8)	-	-	-	45,661	598,500	644,161
Removal of original franchise agreement (note 8)	(220,759)	-	-	-	-	(220,759)
Foreign exchange	(248,352)	-	-	(83,718)	(207,612)	(539,682)
As at December 31, 2017	2,650,528	978,000	1,672,500	1,234,822	3,128,968	9,664,818

Accumulated amortization	**Franchise agreements**	**Proshred system**	**Trademarks & intellectual property**	**Re-acquired franchise rights**	**Customer relationships**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
As at January 1, 2016	2,602,472	766,091	1,310,121	1,074,175	860,533	6,613,392
Amortization	262,503	97,800	167,244	132,156	273,420	933,123
Foreign exchange	(82,363)	-	-	(32,054)	(25,679)	(140,096)
As at December 31, 2016	2,782,612	863,891	1,477,365	1,174,277	1,108,274	7,406,419
Amortization	187,035	97,800	167,244	131,269	295,602	878,950
Removal of original franchise agreement (note 8)	(196,505)	-	-	-	-	(196,505)
Foreign exchange	(156,852)	-	-	(74,950)	(70,364)	(302,166)
As at December 31, 2017	2,616,290	961,691	1,644,609	1,230,596	1,333,512	7,786,698
Net book value						
As at December 31, 2016	337,027	114,109	195,135	98,602	1,629,806	2,374,679
As at December 31, 2017	34,238	16,309	27,891	4,226	1,795,456	1,878,120

The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at December 31, 2017 and December 31, 2016. Amortization of intangible assets for the period is included in the statement of comprehensive income (loss). The Company's franchise agreements, customer lists and re-acquired franchise rights are attributed to the Company's franchises and corporately owned locations in the US.

(expressed in Canadian dollars)

11 Goodwill

The following table presents goodwill for the years ended December 31, 2017 and 2016:

	2017	2016
	$	$
Opening balance	1,837,398	1,893,914
Foreign currency translation	(116,961)	(56,516)
Closing balance	1,720,437	1,837,398

12 Impairment of goodwill and long-lived assets

The Company performs an impairment test of long-lived assets when there is an indication of permanent impairment, which includes indicators such as when actual sales are less than budgeted, profits are less than prior years' profits, and when significant events and circumstances indicate that the carrying amount may not be recoverable. There were no indications of permanent impairment of the Company's long-lived assets during the year ended December 31, 2017. Goodwill is tested for impairment at least annually.

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

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

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

Cash Generating Unit	**2017**	**2016**
	$	$
Syracuse	163,726	174,888
Albany	114,176	121,960
Milwaukee	807,630	862,357
New York City	634,905	678,193
Total goodwill	1,720,437	1,837,398

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

(expressed in Canadian dollars)

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

The key assumptions included the following:

i. Pre-tax discount rates ranging from 26% to 30% (December 31, 2016 – 26% to 41%) were used and reflects the risks specific to each CGU.

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

iii. Budget-operating margins, which were determined using operating margins achieved in the periods immediately before the budget period. Management believes the operating margins are reasonably achievable.

13 Accounts payable and accrued liabilities

As at December 31, 2017 and December 31, 2016, accounts payable and accrued liabilities are comprised of:

	2017	2016
	$	$
Accounts payable	219,106	356,230
Accrued liabilities	694,488	772,683
Total accounts payable and accrued liabilities	913,594	1,128,913

14 Long-term debt

As at December 31, 2017 and December 31, 2016, long-term debt is comprised of:

	2017	2016
	$	$
Bank indebtedness	1,839,515	–
Less: transaction costs	(148,887)	–
Net bank indebtedness (i)	1,690,628	–
Related party line of credit (ii)	–	4,973,848
Truck loans (iii)	1,628,831	1,559,056
Finance lease liability (iv)	317,684	478,295
Related party term loans (v)	–	658,631
Total long-term debt	3,637,143	7,669,830
Less: current portion	(1,114,882)	(5,619,461)
Total	2,522,261	2,050,369

(expressed in Canadian dollars)

14 Long term debt (continued)

(i) *Bank indebtedness*

On July 28, 2017, the Company secured senior credit facilities from Bank of Montreal ("BMO"). These facilities include:

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

On July 28, 2017, the Company received an advance of $2 million on the non-revolving term loan.

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

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

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

1. A minimum fixed charge coverage ratio of 1.25:1 which is defined as earnings before interest, taxes, depreciation and amortization ("EBITDA") less cash taxes and unfunded capital expenditures to total principal and interest repayments;
2. A maximum senior funded debt to EBITDA ratio of 2.75:1 which is defined as total senior debt divided by EBITDA;
3. A maximum total funded debt to EBITDA ratio of 2.80:1 which is defined as total debt to EBITDA;
4. Capital expenditures are not to exceed $1 million in any fiscal year; and
5. Unfunded capital expenditures are not to exceed $250,000 in any fiscal year.

The ratio covenants are measured at the end of each quarter on a trailing 12 month basis.

As at December 31, 2017, the Company was in compliance with all of the banking covenants.

(ii) Related party line of credit

On July 17, 2017, the Company replaced its' original related party line of credit facility with a new line of credit for a maximum amount of $2.0 million. The new line of credit facility has a five year term maturing on July 16, 2022 and bears interest at a fixed rate of 10% per annum. The line of credit is secured by a second in priority general security agreement over the Company's assets. As at December 31, 2017, the facility has not been drawn upon. (Refer to note 27).

(expressed in Canadian dollars)

14 Long term debt (continued)

(iii) Truck loans

The loans noted below are secured by shredding vehicles. The information presented is as at December 31, 2017:

Origination	Initial amount	Payment (1)	Interest per annum	Asset carrying value	Loan value	Maturity
October 24, 2013	US$187,950	US$3,731	7.00%	CAD$118,282	CAD$45,410 US$36,126	October 24, 2018
June 23, 2015	US$229,039	US$4,520	6.75%	CAD$216,616	CAD$156,249 US$124,303	June 23, 2020
July 22, 2015	US$300,000	US$7,283	7.50%	CAD$247,887	CAD$163,396 US$129,989	July 22, 2019
December 22, 2015	US$80,000	US$2,480	7.50%	CAD$4,918	CAD$35,935 US$28,588	December 5, 2018
July 5, 2016	US$176,546	US$3,904	6.40%	CAD$194,305	CAD$147,965 US$117,713	September 5, 2020
September 5, 2016	US$381,572	US$7,392	5.95%	CAD$528,063	CAD$365,934 US$291,117	August 5, 2021
March 22, 2017	US$170,581	US$3,282	5.71%	CAD$311,667	CAD$186,104 US$148,054	March 22, 2022
May 3, 2017	US$230,956	US$4,465	5.99%	CAD$285,487	CAD$260,823 US$207,496	May 5, 2022
May 4, 2017	US$236,456	US$4,549	5.71%	CAD$292,373	CAD$267,015 US$212,289	May 4, 2022

(1) Blended monthly payments of principal and interest.

(iv) Finance lease liability

The finance leases noted below are secured by shredding vehicles. The information presented is as at December 31, 2017:

Origination	Initial amount	Payment (1)	Interest per annum	Asset carrying value	Loan value	Residual (2)	Maturity
November 15, 2013	US$137,035	US$2,296	7.95%	CAD$105,228	CAD$71,893 US$57,194	US$37,680	December 20, 2018
July 17, 2014	US$226,432	US$3,861	7.62%	CAD$182,581	CAD$142,678 US$113,507	US$50,610	August 20, 2019
December 22, 2015	US$170,000	US$4,364	6.75%	CAD$78,723	CAD$103,215 US$82,112	US$34,000	January 5, 2019

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

(expressed in Canadian dollars)

14 Long term debt (continued)

(iv) Finance lease liability (continued)

Future minimum finance lease payments at December 31, 2017, stated in Canadian dollars, were as follows:

	2018 $	2019 $	Total $
Lease payments	203,221	140,205	343,426
Finance charges	(21,514)	(4,228)	(25,742)
Net present values	181,707	135,977	317,684

The future minimum lease payments have been translated at the closing rate at December 31, 2017 using an exchange rate of USD$1.00 = CAD$1.257.

(v) Related party term loans

In order to finance the purchase of the Proshred Charlotte franchise on July 31, 2013, the Company entered into the following loan agreements with related parties (refer to note 27):

(a) A 5 year loan agreement in the amount of CAD$525,750 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. On January 23, 2017, the Company converted the loan agreement into equity at a price of $0.30 per Common Share (refer to note 27);

(b) A 5 year loan agreement in the amount of US$75,000 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. On January 23, 2017, the Company converted the loan agreement into equity at a price of $0.30 per Common Share (refer to note 27) and;

(c) A 4 year loan agreement in the amount of CAD$100,000 with monthly blended payments of principal and interest of CAD$2,488 maturing July 31, 2017. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The loan bears interest at 9% per annum. On January 23, 2017, the Company converted the loan agreement into equity at a price of $0.30 per Common Share (refer to note 27).

(d) A 4 year loan agreement in the amount of US$50,000 with monthly blended payments of principal and interest of US$1,244 which matured on July 31, 2017. The loan was secured by a general security agreement over the assets of the Proshred Charlotte entity. The loan beared interest at 9% per annum.

Long-term debt principal repayments as at December 31, 2017, stated in Canadian dollars, are as follows:

	2018 $	2019 $	2020 $	2021 $	2022 $	Total $
Principal repayments	933,204	835,624	747,256	649,885	302,918	3,468,887

The long-term debt principal repayments have been translated at the closing rate at December 31, 2017 using an exchange rate of USD$1.00 = CAD$1.257.

(expressed in Canadian dollars)

15 Notes payable

As at December 31, 2017, notes payable is comprised of:

Origination	Initial amount	Payment [1]	Interest per annum	Current portion of Note	Long-term portion of Note	Maturity
December 31, 2015	US$100,000	US$2,997	5.00%	CAD$43,800 US$34,856	– –	December 5, 2018
March 31, 2017	US$125,000	US$5,208	0.00%	CAD$78,557 US$62,496	CAD$26,206 US$20,837	April 1, 2019

(1) Blended monthly payments of principal and interest.

16 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	Convertible debentures	Total
	$	$	$	$	$
Balance as of December 31, 2016	33,568	91,351	7,669,830	352,176	8,146,925
Cash flows:					
Proceeds	–	–	2,682,961	–	2,682,961
Repayments	(130,199)	(94,081)	(6,063,318)	–	(6,287,598)
Non cash:					
Additions through acquisitions	165,612	166,250	–	–	331,862
Conversion to equity	–	–	(658,631)	(352,176)	(1,010,807)
Foreign exchange	(4,086)	(14,957)	6,301	–	(12,742)
Balance as of December 31, 2017	64,895	148,563	3,637,143	–	3,850,601

17 Capital stock

a) Authorized

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

(expressed in Canadian dollars)

17 Capital stock (continued)

b) Issued and fully paid

The following table summarizes the movements in the Company's common shares during the year ended December 31, 2017:

	Common Stock Number
Opening balance, January 1, 2017	28,939,658
Equity raise closed on January 23, 2017	13,447,669
Debenture conversion (note 17)	1,250,002
Debt conversion (note 14(v))	2,140,258
Options exercised (note 16(d))	1,575,000
Warrants exercised (note 16(e))	150,000
Closing balance, December 31, 2017	47,502,587

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

	Common stock		Warrants		Total	
	Number	$	Number	$	Number	$
Balance December 31, 2017	47,502,587	13,451,864	1,652,150	610,515	49,154,737	14,062,379
Balance December 31, 2016	28,939,658	8,590,995	–	–	28,939,658	8,590,995

c) Weighted average common shares

	2017	2016
Weighted average number of shares outstanding - basic	46,017,909	28,885,233
Dilutive potential ordinary shares		
- options and warrants	1,072,073	808,228
Weighted average number of shares outstanding - diluted	**47,089,982**	**29,693,461**
Number of shares excluded from diluted earnings per share calculation due to anti-dilutive effect:		
- options	3,035	-

(expressed in Canadian dollars)

17 Capital stock (continued)

d) Stock options

Under the terms of the stock option plan:

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

ii) Eligible participants are persons who are directors, officers, employees and advisors of the Company;

iii) Options to purchase shares are non-transferable and are exercisable for a period of up to five years from the date of grant;

iv) Shares to be optioned shall not exceed 4,750,259 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:

	2017		2016	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding – Beginning of year	2,100,000	0.19	1,830,000	0.17
Granted	769,000	0.52	325,000	0.29
Exercised	(1,575,000)	0.21	(55,000)	0.05
Expired	(100,000)	0.03	-	-
Outstanding – End of year	1,194,000	0.39	2,100,000	0.19

(expressed in Canadian dollars)

17 Capital stock (continued)

d) Stock options (continued)

The following table summarizes the stock options outstanding as at:

		2017			2016		
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**
0.20	Nov 23, 2012	-	-	-	975,000	0.90	975,000
0.10	Aug 6, 2013	50,000	0.58	50,000	50,000	1.58	50,000
0.10	Jan 7, 2014	5,000	1.02	3,750	5,000	2.02	1,250
0.15	July 28, 2014	5,000	1.58	3,750	5,000	2.58	2,500
0.17	Dec 11, 2014	10,000	1.95	10,000	10,000	2.95	10,000
0.15	Jan 2, 2015	5,000	2.00	2,500	5,000	3.00	1,250
0.15	June 1, 2015	300,000	2.42	300,000	700,000	3.42	700,000
0.18	Aug 26, 2015	25,000	2.67	25,000	25,000	3.67	25,000
0.20	Apr 6, 2016	25,000	3.27	18,750	25,000	4.27	12,500
0.30	July 1, 2016	-	-	-	300,000	4.50	300,000
0.51	May 1, 2017	718,000	4.33	718,000	-	-	-
0.60	June 30, 2017	31,000	4.50	7,750	-	-	-
0.61	Nov 1, 2017	20,000	4.84	-	-	-	-
		1,194,000		1,139,500	2,100,000		2,077,500

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

	2017	**2016**
Expected option life	5 years	5 years
Risk-free interest rate	1.04%	0.60%
Expected dividend yield	$nil	$nil
Expected volatility	143%	149%

The vesting periods vary dependent on the individual option grant, either immediately or over the term of the option. During the year ended December 31, 2017, 1,575,000 stock options were exercised for proceeds of $325,000 (2016 – 55,000 stock options were exercised for proceeds of $3,000). The net stock compensation charge, after adjusting for stock option forfeitures, amounted to $293,989 (2016 - $87,130).

(expressed in Canadian dollars)

17 Capital stock (continued)

e) Warrants

The Company issued 1,802,150 warrants on January 23, 2017 as part of the private placement. Each warrant is exercisable into one Common Share at a price of $0.36 per Common Share for a period of five years and expire on January 23, 2022. The warrants have been classified as equity instruments. During the year ended December 31, 2017, 150,000 warrants were exercised. As of December 31, 2017, there are 1,652,150 warrants outstanding. The fair values of the warrants were determined using the Black-Scholes option pricing model with the following weighted average assumptions:

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

18 Convertible debentures

On December 31, 2012, the Company issued $375,000 convertible, unsecured subordinated, debentures. The debentures have a five-year term and a coupon of 7.5% interest per annum. Each $1,000 principal amount of debenture entitles the holder to convert to approximately 3,333 common shares at a conversion price of $0.30 per share at any time prior to maturity. Conversion may occur at any time prior to the maturity date of December 31, 2017. The Company may, at its option, redeem the debentures, in whole or in part, at a redemption price equal to the principal amount plus accrued interest and unpaid interest. Interest of 7.5% per annum will be paid annually on the anniversary of the grant date. Debenture holders may defer interest otherwise due and payable until the next interest payment date, in which case such deferred interest payment shall accrue additional interest at 7.5% per annum. The convertible debentures contain two components: liability and equity elements. The equity element is presented in equity under the label of 'issue of convertible debentures' as contributed surplus. The effective interest rate of the liability element on initial recognition is 9.5% per annum (2016 – 9.5%). On January 23, 2017, the convertible debentures were converted to common shares.

	2017	**2016**
	$	**$**
Opening balance of liability component net of transaction costs	352,176	347,412
Conversion to common shares	(352,176)	-
Accretion expense	-	4,764
Closing balance of liability component net of transaction costs	-	352,176
Equity component, net of transaction costs	20,077	27,710
Conversion to common shares	(20,077)	-
Deferred tax liability related to the equity component	-	7,633
Equity component, net of transaction costs and tax	-	20,077

(expressed in Canadian dollars)

19 Revenue

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

	2017	2016
	$	$
Royalties	2,008,195	1,879,438
Franchise fees	6,500	227,156
License fees	6,828	11,199
Shredding services	7,825,716	6,420,649
Sale of paper products	1,489,260	1,060,861
Total revenue	11,336,499	9,599,303

20 Corporate operating locations expenses by nature

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

	2017	2016
	$	$
Shredding vehicle and related expenses	1,289,175	1,137,982
Employee wages expense	2,846,989	2,390,941
Employee benefit expense	476,692	416,925
Office and administration expense	1,108,503	928,092
Total corporate operating expenses	5,721,359	4,873,940

(expressed in Canadian dollars)

21 Selling, general and administrative expenses by nature

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

	2017	2016
	$	$
Employee wages and benefits expense	1,209,465	988,024
Share-based compensation	293,989	87,130
Professional fees	253,249	295,668
Technology	351,881	388,746
Rent and office expense	139,892	140,994
Selling, development and travel	311,038	245,643
Broker's fee	-	57,876
Other	150,115	131,798
Total selling, general and administrative expenses	2,709,629	2,335,879

Compensation of key management

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

	2017	2016
	$	$
Wages and benefits	725,107	520,156
Share-based compensation	30,793	5,413
Total	755,900	525,569

Key management personnel included the following:

Key Management	
2017	**2016**
1. Chief Executive Officer 2. Chief Financial Officer 3. Senior Vice President of Operations 4. Senior Vice President of Corporate Development	1. Chief Executive Officer 2. Chief Financial Officer 3. Senior Vice President of Operations

(expressed in Canadian dollars)

22 Income taxes

Reconciliation of total tax recovery

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

	2017	2016
	$	$
Statutory income tax rate	26.5%	26.5%
Expected income tax expense based on above rates	86,379	19,625
Impact of US tax reform	900	
Withholding tax	101,143	37,771
State tax	23,832	32,414
Non-deductible expenses	162,379	32,127
Recognition of previously unrecognized deferred tax assets	(770,809)	(204,278)
Prior year taxes	(111,713)	13,854
Effect of foreign tax rates	(17,000)	(47,929)
Non-taxable income	-	(21,183)
Income tax recovery	(490,889)	(137,599)

The enacted tax rate in Canada is 26.50% (2016 - 26.50%) and in the United States is 25.00% (2016 – 38.82%). These rates have been applied in the tax provision calculation.

The Tax Cuts and Jobs Act was enacted on December 22, 2017. The Act reduces the US federal corporate tax rate from 35% to 21%. As a result, the Company recognized an increase of $900 in the tax recovery for the period related to adjusting the net deferred tax asset balance to reflect the new corporate rate. The accounting for the effects of the rate change on deferred tax balances is complete and no provisional amounts were recorded for this item.

	2017	2016
	$	$
Provision for (recovery of) income taxes is comprised of:		
Current income taxes	176,327	62,107
Deferred income taxes	(667,216)	(199,706)
	(490,889)	(137,599)

(expressed in Canadian dollars)

22 Income taxes (continued)

Deferred tax

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

	2017	2016
	$	$
Deferred income tax asset (liability):		
Taxable temporary difference on property and equipment and intangibles	(261,861)	(466,573)
Other	-	14,865
Unrealized foreign exchange	(120,441)	(377,696)
Non-capital losses	840,030	622,360
Net deferred income tax asset (liability)	457,728	(207,044)

The following temporary differences and non-capital losses have not been recognized:

	2017	2016
	$	$
Non-capital losses	2,643,562	5,171,583
Property, plant and equipment	20,157	4,264
Intangible assets	1,137,172	1,497,664
Other	432,262	549,729
	4,233,153	7,223,240

The Company has incurred Canadian non-capital losses of $4,362,557 that can be carried forward to reduce taxes payable in Canada. The losses expire at various times through December 31, 2035. The Company has incurred US non-capital losses of $1,537,983 that can be carried forward to reduce taxes payable in the US. The losses expire at various times through December 31, 2036.

23 Commitments

The Company has the following lease commitments:

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

(expressed in Canadian dollars)

23 Commitments (continued)

Certain contracts include renewal options for various periods of time. For the year ended December 31, 2017, the Company incurred $398,725 (December 31, 2016 - $342,286) in lease payments as an expense included in 'selling, general and administrative expenses' and 'corporate operating expenses'.

Non-cancellable operating lease rentals are payable as follows:

	$
Less than 1 year	463,704
Between 1 and 5 years	1,230,146
Over 5 years	124,009
Total	1,817,859

24 Financial instruments and fair values

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

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

Fair values

The carrying value amounts of many of the Company's financial instruments, including cash, trade receivables, accounts payables and accrued liabilities, which are all carried at amortized cost, approximate their fair value due primarily to the short-term maturity of the related instruments. The fair value estimates of the Company's notes receivable from franchisees (note 7), are made as at a specific point in time based on estimates using present value or other valuation techniques. The carrying value of the Company's notes payable, long-term debt and convertible debentures 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 convertible debentures are valued at fair values using Level 1 inputs and its' contingent consideration is valued at fair values using Level 3 inputs. The Company does not have any Level 2 inputs. These valuation techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimate of future cash flows, future expected loss experience and other factors.

(expressed in Canadian dollars)

24 Financial instruments and fair values (continued)

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

December 31, 2017	**Loans and Receivables**	**Other Financial Liabilities**	**Total Carrying Amount**	**Fair Value**
	$	$	$	$
Cash and cash equivalents	2,245,533	-	2,245,533	2,245,533
Cash attributable to Ad Fund	193,776	-	193,776	193,776
Accounts receivable	972,987	-	972,987	972,987
Notes receivable	104,226	-	104,226	103,075
Total financial assets	**3,516,522**	**-**	**3,516,522**	**3,515,371**
Payables and accruals	-	913,594	913,594	913,594
Notes payable	-	148,563	148,563	148,563
Long-term debt	-	3,637,143	3,637,143	3,637,143
Contingent consideration	-	64,895	64,895	64,895
Total financial liabilities	**-**	**4,764,195**	**4,764,195**	**4,764,195**

December 31, 2016	**Loans and Receivables**	**Other Financial Liabilities**	**Total Carrying Amount**	**Fair Value**
	$	$	$	$
Cash	1,046,896	-	1,046,896	1,046,896
Cash attributable to Ad Fund	261,304	-	261,304	261,304
Accounts receivable	878,243	-	878,243	878,243
Notes receivable	199,290	-	199,290	171,138
Total financial assets	**2,385,733**	**-**	**2,385,733**	**2,357,581**
Payables and accruals	-	1,128,913	1,128,913	1,128,913
Notes payable	-	91,351	91,351	91,351
Long-term debt	-	7,669,830	7,669,830	7,669,830
Contingent consideration	-	33,568	33,568	33,568
Convertible debentures	-	352,176	352,176	352,176
Total financial liabilities	**-**	**9,275,838**	**9,275,838**	**9,275,838**

(expressed in Canadian dollars)

24 Financial instruments and fair values (continued)

Interest rate risk

The Company is subject to interest rate risk, as it earns interest at prevailing and fluctuating market rates. The Company has fixed rates on notes receivable from franchisees ranging from 4.25% to 5.25% per annum. The Company also has a variable interest rate of prime plus 2.50% per annum on its Bank of Montreal term loan and prime plus 1.70% per annum on its Bank of Montreal line of credit. The Company's line of credit facility with a related party has a fixed interest rate of 10% per annum. The truck loans have fixed interest rates ranging from 5.71% to 7.95% per annum. These financial instruments are subject to interest rate risk, as their fair values will fluctuate as a result of changes in market rates.

Credit risk

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

Receivables related to franchising and licensing

The accounts and notes receivable from franchisees are exposed to credit risk from the possibility that franchisees may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one franchisee. Credit assessments are conducted with respect to all new franchisees and existing franchisees. In addition, the receivable balances are monitored on an ongoing basis. As of December 31, 2017, 6 franchisees accounted for 59% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2016 - 6 franchises accounted for 65%). For the year ended December 31, 2017, 3 franchisees accounted for 18% of the Company's revenues related to franchising and licensing (December 31, 2016 - 3 franchisees accounted for 23%). As of December 31, 2017, there were no accounts and notes receivable over 90 days old (December 31, 2016 – nil).

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

Receivables related to corporate operations

The accounts receivable are exposed to credit risk from the possibility that customers may experience financial difficulty. At December 31, 2017, no customer accounted for more than 10% of the accounts receivable balance. For the years ended December 31, 2017 and 2016, no customer accounted for more than 10% of the Company's revenues in this category. As of December 31, 2017, 6% of accounts receivable in this category was over 90 days old (December 31, 2016 – 9%). As at December 31, 2017, the Company recorded an allowance for credit losses from receivables of $2,219 related to corporate operations (December 31, 2016 - $nil). The Company does not have any reason to believe it will not collect all remaining balances.

(expressed in Canadian dollars)

24 Financial instruments and fair values (continued)

Credit risk (continued)

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

	2017	2016
	$	$
Past due but not impaired		
60 to 90 days	64,775	58,968
91 days to 180 days	48,233	61,105

Foreign exchange risk

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

The Company recorded a foreign exchange loss of $293,047 (December 31, 2016 – gain of $69,318) during the fiscal year. Based on the financial liability held in the United States and denominated in CAD at December 31, 2017, a 5% increase or decrease in exchange rates would impact the Company's net earnings by approximately $10,000 (December 31, 2016 - $30,000).

Exchange rates utilized (USD to CDN):

	2017	2016
	$	$
December 31 close rate	1.2570	1.3427
Average rate	**1.3000**	**1.3253**

Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. Cash flow forecasting is performed by management, which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. Although management considers its assumptions used in its cash flow forecasts to be reasonable, there is no assurance that the cash flow forecasts will be achieved. The Company monitors its cash balances and cash flows generated from operations to meet requirements.

Based on overall cash generation capacity and overall financial position, while there can be no assurance, management believes the Company will be able to meet financial obligations as they come due. The current liabilities of $2,246,816 at December 31, 2017 (December 31, 2016 - $6,815,122), are due to be settled within one year from the date of the statement of financial position. The Company has current assets of $3,658,075 at December 31, 2017 (December 31, 2016 - $2,456,915) including cash and cash equivalents of $2,245,533 (December 31, 2016 - $1,046,896).

(expressed in Canadian dollars)

24 Financial instruments and fair values (continued)

Liquidity risk (continued)

Principal	**Less than 3 months $**	**3 months to 1 year $**	**2 – 5 years $**	**Over 5 years $**
Accounts payable and accrued liabilities	793,594	120,000	-	-
Income taxes payable	51,193	-	-	-
Notes payable	30,397	91,967	26,199	-
Contingent consideration	-	44,790	20,105	-
Long-term debt	266,648	848,224	2,671,158	-

Interest	**Less than 3 months $**	**3 months to 1 year $**	**2 – 5 years $**	**Over 5 years $**
Notes payable	548	861	-	-
Long-term debt	56,916	149,564	256,389	-

Total principal and interest	**Less than 3 months $**	**3 months to 1 year $**	**2 – 5 years $**	**Over 5 years $**
Accounts payable and accrued liabilities	793,594	120,000	-	-
Income taxes payable	51,193	-	-	-
Notes payable	30,945	92,828	26,199	-
Contingent consideration	-	44,790	20,105	-
Long-term debt	323,564	997,788	2,927,547	-

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

(expressed in Canadian dollars)

26 Segment reporting

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

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

	Franchising and licensing	Corporate locations	Corporate overhead	Total
	December 31, 2017	December 31, 2017	December 31, 2017	December 31, 2017
ASSETS	$	$	$	$
Current assets				
Cash	280,332	1,049,663	915,538	2,245,533
Cash attributable to the Ad Fund	193,776	-	-	193,776
Trade receivables	138,312	773,641	61,034	972,987
Prepaid expenses	14,636	131,392	14,763	160,791
Notes receivable from franchisees	84,988	-	-	84,988
Total current assets	712,044	1,954,696	991,335	4,115,803
Non-current assets				
Notes receivable from franchisees	19,238	-	-	19,238
Equipment	11,944	3,728,543	31,747	3,772,234
Intangible assets	34,238	1,799,674	44,208	1,878,120
Goodwill	-	1,720,437	-	1,720,437
Deferred tax asset	-	-	457,728	457,728
Total assets	777,464	9,203,350	1,525,018	11,505,832
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	320,888	202,481	390,225	913,594
Current income taxes payable	-	-	51,193	51,193
Current portion of contingent consideration	-	44,790	-	44,790
Current portion of notes payable	-	122,357	-	122,357
Current portion of long-term debt	-	1,114,882	-	1,114,882
Total current liabilities	320,888	1,484,510	441,418	2,246,816
Non-current liabilities				
Long-term debt	-	2,522,261	-	2,522,261
Contingent consideration	-	20,105	-	20,105
Note payable	-	26,206	-	26,206
Total liabilities	320,088	4,053,082	441,418	4,815,388

(expressed in Canadian dollars)

26 Segment reporting (continued)

	Franchising and licensing	Corporate locations	Corporate overhead	Total
ASSETS	December 31, 2016 $	December 31, 2016 $	December 31, 2016 $	December 31, 2016 $
Current assets				
Cash	290,689	681,594	74,613	1,046,896
Cash attributable to the Ad Fund	261,304	-	-	261,304
Trade receivables	155,607	678,525	45,111	878,243
Income tax receivable	21,457	-	-	21,457
Prepaid expenses	11,883	84,967	62,736	159,586
Notes receivable from franchisees	89,429	-	-	89,429
Total current assets	830,369	1,444,086	182,460	2,456,915
Non-current assets				
Notes receivable from franchisees	109,861	-	-	109,861
Equipment	-	3,211,097	11,450	3,222,547
Intangible assets	337,016	1,728,410	309,253	2,374,679
Goodwill	-	1,837,398	-	1,837,398
Total assets	1,277,246	8,220,991	503,163	10,001,400
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	422,632	214,696	491,585	1,128,913
Current portion of contingent consideration	-	33,568	-	33,568
Current portion of notes payable	-	33,180	-	33,180
Current portion of long-term debt	-	5,619,461	-	5,619,461
Total current liabilities	422,632	5,900,905	491,585	6,815,122
Non-current liabilities				
Long-term debt	-	2,050,369	-	2,050,369
Note payable	-	58,171	-	58,171
Convertible debenture	-	-	352,176	352,176
Deferred tax liability	207,044	-	-	207,044
Total liabilities	629,676	8,009,445	843,761	9,482,882

(expressed in Canadian dollars)

26 Segment reporting (continued)

Geographic information

Canada	**December 31, 2017** **$**	**December 31, 2016** **$**
Equipment	31,747	11,450
Intangible assets	44,208	309,253
United States		
Notes receivable from franchisees	104,226	199,290
Equipment	3,740,487	3,211,097
Intangible assets	1,833,912	2,065,426
Goodwill	1,720,437	1,837,398
Total		
Notes receivable from franchisees	104,226	199,290
Equipment	3,772,234	3,222,547
Intangible assets	1,878,120	2,374,679
Goodwill	1,720,437	1,837,398

Revenue

All revenues were attributed to the United States, with the exception of license fees, which were attributed to the Middle East.

United States	**December 31, 2017** **$**	**December 31, 2016** **$**
Royalties	2,008,195	1,879,438
Franchise fees	6,500	227,156
Shredding services	7,825,716	6,420,649
Sales of paper products	1,489,260	1,060,861
Middle East		
License fees	6,828	11,199

(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, 2017			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	$	$	$	$
Revenue	2,021,523	9,314,976	-	11,336,499
Direct costs	-	(5,721,359)	-	(5,721,359)
Selling, general and administrative	(1,072,642)	(405,867)	(1,231,120)	(2,709,629)
Depreciation and amortization	(578,884)	(1,341,647)	(22,568)	(1,943,099)
Foreign currency loss, net	-	-	(293,047)	(293,047)
Interest expense	-	(354,230)	-	(354,230)
Interest income	7,376	-	-	7,376
Gain on sale of assets	-	3,450	-	3,450
Income tax recovery	-	-	490,889	490,889
Net income (loss)	377,373	1,495,323	(1,055,846)	816,850

	For the year ended December 31, 2016			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	$	$	$	$
Revenue	2,117,793	7,481,510	-	9,599,303
Direct costs	-	(4,873,940)	-	(4,873,940)
Selling, general and administrative	(1,172,868)	(722,735)	(440,276)	(2,335,879)
Depreciation and amortization	(618,475)	(920,296)	-	(1,538,771)
Foreign currency gain, net	-	-	69,318	69,318
Interest expense	-	(715,339)	(40,248)	(755,587)
Interest income	7,622	-	239	7,861
Loss on sale of assets		(136,016)	-	(136,016)
Income tax recovery	90,476	47,123	-	137,599
Net income (loss)	424,548	160,307	(410,967)	173,888

27 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. There is no accounts receivable balance due from this franchise at December 31, 2017 (2016 - $580). During the year ended December 31, 2017, the Company earned royalties, service fees and interest income of $128,875 (2016 - $189,333) from this franchise. Included in notes receivable from the franchisees is a three year note receivable balance of $19,760, which has an interest rate of 5% per annum.

(expressed in Canadian dollars)

27 Related party balances and transactions (continued)

The Company has a line of credit facility with a related party entity, the Company's largest shareholder. On July 17, 2017, the Company replaced its' original related party line of credit facility with a new line of credit for a maximum amount of $2.0 million. The new line of credit facility has a five year term maturing on July 16, 2022 and bears interest at a fixed rate of 10% per annum. The line of credit is secured by a second in priority general security agreement over the Company's assets. As at December 31, 2017, the facility has not been drawn upon. (Refer to note 14).

On December 31, 2012, the Company issued $375,000 convertible, unsecured subordinated, debentures to certain members of the Company's Board of Director's. On January 23, 2017, the convertible debentures were converted to common shares. (Refer to note 18).

Included in selling, general and administrative expenses for the year ended December 31, 2017 are insurance premium amounts of $24,084 (December 31, 2016 - $15,039) paid to an insurance brokerage firm managed by a Director of the Company.

In order to finance the acquisition of the Charlotte location, the Company obtained four loans from certain members of the Company's Board of Director's. On January 23, 2017, the Company converted three of the loans into equity at a price of $0.30 per common share. The remaining loan was extinguished on July 28, 2017. (Refer to note 14).

28 Subsequent events

On March 15, 2018, the Company granted 305,000 stock options to non-management Directors of the Company. The stock options were granted at a price of $0.55 with a life of five years, expiring on March 14, 2023.

On April 2, 2018, the Company acquired the assets of the Shred Con business in upstate New York for a total purchase price of $683,700. The asset acquisition included two on-site shredding vehicles, other equipment and customer relationships. The business will be operated out of the Syracuse, NY office. The Company conducted the acquisition to increase its long-term cash flows and expand its footprint in upstate New York.

On April 16, 2018, the Company granted 300,500 stock options to key management personnel. The stock options were granted at a price of $0.61 with a life of five years, expiring on April 15, 2023.