RediShred Capital Corp.

Consolidated Financial Statements
December 31, 2016 and 2015

(expressed in Canadian dollars)

April 13, 2017

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

Suite 501
201 City Centre Drive
Mississauga, ON
L5B 2T4
T +1 416 366 0100
F +1 905 804 0509
www.GrantThornton.ca

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, 2016 and 2015, and the statements of consolidated comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and 2015 in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Mississauga, Canada
April 13, 2017

Chartered Professional Accountants
Licensed Public Accountants

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at December 31, 2016 and 2015

(expressed in Canadian dollars)

	December 31, 2016 $	December 31, 2015 $
Assets		
Current assets		
Cash	1,011,443	848,197
Cash attributable to the Advertising Fund (note 5)	261,304	176,129
Income taxes receivable	21,457	-
Trade receivables (note 6)	913,696	951,793
Prepaid expenses	159,586	101,751
Notes receivable from franchisees (note 7)	89,429	84,235
Total current assets	2,456,915	2,162,105
Non-current assets		
Notes receivable from franchisees (note 7)	109,861	122,071
Equipment (note 8)	3,222,547	3,155,192
Intangible assets (note 9)	2,374,679	3,380,248
Goodwill (notes 10 and 11)	1,837,398	1,893,914
Total non-current assets	7,544,485	8,551,425
Total assets	10,001,400	10,713,530
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	1,128,913	959,562
Current taxes payable	-	14,035
Current portion of notes payable	33,180	44,254
Current portion of long-term debt (note 13)	5,619,461	1,087,933
Current portion of contingent consideration	33,568	34,600
Total current liabilities	6,815,122	2,140,384
Non-current liabilities		
Long-term debt (note 13)	2,050,369	7,127,445
Long-term notes payable	58,171	94,146
Contingent consideration	-	34,600
Deferred tax liability (note 19)	207,044	439,531
Convertible debentures (note 15)	352,176	347,412
Total non-current liabilities	2,667,760	8,043,134
Total liabilities	9,482,882	10,183,518
Shareholders' equity		
Capital stock (note 14)	8,590,995	8,585,808
Contributed surplus	512,518	427,575
Accumulated foreign currency translation loss	(496,250)	(220,738)
Deficit	(8,088,745)	(8,262,633)
	518,518	530,012
Total liabilities and shareholders' equity	10,001,400	10,713,530

Commitments (note 20)

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

Approved on behalf of the Board of Directors

(signed) "*Phillip H. Gaunce*" Director

(signed) "*Brad Foster*" Director

RediShred Capital Corp.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

(expressed in Canadian dollars)

	2016 $	2015 $
Revenue (note 16)	9,599,303	7,678,025
Corporate operating locations expenses (note 17)	(4,873,940)	(3,384,745)
Depreciation – equipment	(614,301)	(498,555)
Selling, general and administrative expenses (note 18)	(2,343,247)	(1,975,117)
Total expenses	(7,831,488)	(5,858,417)
Operating income	1,767,815	1,819,608
Amortization – intangible assets	(924,470)	(914,102)
Foreign exchange gain	69,318	1,043,435
(Loss) gain on sale of assets (note 8)	(136,016)	51,991
Interest expense	(748,219)	(791,247)
Interest income	7,861	12,358
Income before income taxes	36,289	1,222,043
Income tax recovery (expense) (note 19)	137,599	(329,804)
Net income for the year	173,888	892,239
Other comprehensive loss		
Foreign currency translation loss	(275,512)	(48,128)
Comprehensive (loss) income for the year	(101,624)	844,111
Net income per share		
Basic and diluted	0.00	0.03
Weighted average number of commons shares outstanding – basic	28,885,233	28,884,658
Weighted average number of commons shares outstanding – diluted	29,693,461	30,174,285

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, 2016 and 2015

(expressed in Canadian dollars)

	Capital stock and warrants $ (note 14)	Contributed surplus $	Accumulated foreign currency translation loss $	Deficit $	Total shareholders' equity/(deficiency) $
Balance – January 1, 2015	8,585,808	375,387	(172,610)	(9,154,872)	(366,287)
Net income for the year	–	–	–	892,239	892,239
Other comprehensive loss					
Foreign currency translation loss	–	–	(48,128)	–	(48,128)
Comprehensive income for the year	–	–	–	–	844,111
Stock-based compensation (note 14)	–	52,188	–	–	52,188
Balance – December 31, 2015	8,585,808	427,575	(220,738)	(8,262,633)	530,012
Net income for the year	–	–	–	173,888	173,888
Other comprehensive income					
Foreign currency translation loss	–	–	(275,512)	–	(275,512)
Comprehensive loss for the year	–	–	–	–	(101,624)
Issue of shares (note 14)	5,187	(2,187)	–	–	3,000
Stock-based compensation (note 14)	–	87,130	–	–	87,130
Balance – December 31, 2016	8,590,995	512,518	(496,250)	(8,088,745)	518,518

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, 2016 and 2015

(expressed in Canadian dollars)

Cash provided by (used in)	2016 $	2015 $
Operating activities		
Net income for the year	173,888	892,239
Items not affecting cash		
Amortization of equipment and intangible assets	1,550,902	1,417,423
Stock-based compensation	87,130	52,188
Unrealized foreign currency gain	(46,348)	(915,602)
Loss (gain) on sale of assets	136,016	(51,991)
Revaluation of contingent consideration	(33,567)	-
Deferred income tax (recovery) expense	(199,706)	264,851
	1,668,315	1,659,108
Net change in non-cash working capital balances		
Decrease (Increase) in trade receivables	10,393	(334,231)
(Increase) in prepaid expenses	(59,804)	(9,314)
Increase in accounts payable and accrued liabilities	121,989	61,640
(Increase) decrease in income taxes receivable	(21,184)	14,035
Net cash from continuing operations	1,719,709	1,391,238
Financing activities		
Borrowings from long-term debt	739,674	676,000
Repayment of long-term debt	(1,236,882)	(1,323,703)
Issuance of capital stock	3,000	-
Repayment of notes receivable from franchisees	848	77,831
Repayment of notes payable	(42,919)	-
Net cash from financing activities	(536,279)	(569,872)
Investing activities		
Increase in cash held by advertising fund	(89,259)	(74,653)
Proceeds from sale of equipment	273,012	87,526
Purchase of equipment and intangible assets	(1,209,049)	(444,760)
Net cash from investing activities	(1,025,296)	(431,887)
Effect of foreign exchange rate changes on cash	5,112	92,507
Net change in cash for the year	163,246	481,986
Cash – Beginning of year	848,197	366,211
Cash – End of year	1,011,443	848,197
Supplementary cash flow information		
Interest received	7,861	12,358
Interest paid	748,219	793,608
Income tax paid	-	16,299

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 6559 Mississauga Road, 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 six locations in the United States, as of December 31, 2016 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, 2016 and 2015.

These consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as at December 31, 2016. Together, Redishred and its subsidiaries are referred to as "the Company."

The consolidated financial statements of the Company for the year ended December 31, 2016 were authorized for issue in accordance with a resolution of the Directors on April 13, 2017.

3 Significant accounting policies

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

Basis of measurement

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

Basis of consolidation

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

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

The Company's wholly-owned subsidiaries include:

Subsidiary name:	Incorporated in:	Functional currency:
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 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 in selling, general and administrative expenses.

Cash

The Company's cash balances are held in bank accounts in Canada and the United States, which the Company has full access to. Refer to note 23 for cash 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. 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, 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. 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	2-8 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. 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.

Deferred financing charges

Deferred financing charges consist of costs incurred relating to the issuance of a revolving line of credit obtained on December 23, 2009 and are amortized over the term of the facility which expires on November 27, 2017.

Earnings per share

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

Accounting standards and amendments issued but not yet effective

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

(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 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.

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 will evaluate the impact of the change to its 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 11 for estimates and assumptions made.

(expressed in Canadian dollars)

4 Critical accounting estimates and judgements (continued)

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 19 for estimates and assumptions used.

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 8 and 9 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 comprehensive income 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, 2016, the cash attributable to the Ad Fund amounted to $261,304 (2015 - $176,129).

(expressed in Canadian dollars)

6 Trade receivables

Trade receivables include receivables from franchisees and receivables from shredding and recycling customers. The trade receivables as at December 31, 2016 are as follows:

	2016	2015
	$	$
Trade receivables	913,696	952,860
Less: Allowance for doubtful accounts	–	(1,067)
Trade receivables – net	913,696	951,793

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 8.25% per annum with monthly blended payments of principal and interest ranging from US$670 to US$1,600. The payments on the notes commenced between dates ranging from April 15, 2012 to December 31, 2016 and mature between dates ranging from February 1, 2017 to November 30, 2019.

The notes receivable as at December 31, 2016 are as follows:

	2016	2015
	$	$
Principal	199,290	206,306
Less: Current portion	(89,429)	(84,235)
	109,861	122,071

At December 31, 2016, 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.

(expressed in Canadian dollars)

8 Equipment

Cost	Computer equipment	Furniture & fixtures	Bins & shredding containers	Shredding vehicles - chassis	Shredding vehicles - box	Vehicles	Total
	$	$	$	$	$	$	$
As at January 1, 2015	139,170	71,997	358,403	931,060	2,242,363	66,206	3,809,199
Additions	6,602	9,468	56,301	97,512	278,338	-	448,221
Additions acquired in business combination	-	6,920	13,840	34,600	145,320	-	200,680
Sale of assets	-	-	-	(116,422)	(222,573)	(20,760)	(359,755)
Foreign exchange	8,106	4,192	68,985	187,004	443,022	11,441	722,750
As at December 31, 2015	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

Accumulated depreciation	Computer equipment	Furniture & fixtures	Bins & shredding containers	Shredding vehicles - chassis	Shredding vehicles - box	Vehicles	Total
	$	$	$	$	$	$	$
As at January 1, 2015	126,249	68,037	148,679	226,806	599,501	45,451	1,214,723
Depreciation	8,247	2,883	90,053	120,171	289,336	8,304	518,994
Sale of assets	-	-	-	(98,829)	(181,661)	(17,108)	(297,598)
Foreign exchange	6,498	3,438	29,068	52,962	130,327	7,491	229,784
As at December 31, 2015	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
Net book value							
As at December 31, 2015	12,884	18,219	229,729	832,644	2,048,967	12,749	3,155,192
As at December 31, 2016	36,327	14,902	209,605	883,269	2,069,288	9,156	3,222,547

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, 2016 and December 31, 2015.

(expressed in Canadian dollars)

9 Intangible assets

Cost	**Franchise agreements**	**Proshred system**	**Trademarks & intellectual property**	**Re-acquired franchise rights**	**Customer relationships**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
As at January 1, 2015	2,680,301	978,000	1,672,500	1,102,239	2,079,286	8,512,326
Acquisitions	-	-	-	-	335,620	335,620
Foreign exchange	540,142	-	-	209,792	395,760	1,145,694
As at December 31, 2015	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

Accumulated amortization	**Franchise agreements**	**Proshred system**	**Trademarks & intellectual property**	**Re-acquired franchise rights**	**Customer relationships**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
As at January 1, 2015	1,931,544	668,291	1,142,877	749,957	514,950	5,007,619
Amortization	273,297	97,800	167,244	181,476	247,571	967,388
Foreign exchange	397,631	-	-	142,742	98,012	638,385
As at December 31, 2015	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
Net book value						
As at December 31, 2015	617,971	211,909	362,379	237,856	1,950,133	3,380,248
As at December 31, 2016	337,027	114,109	195,135	98,602	1,629,806	2,374,679

During the year ended December 31, 2016, the Company purchased a customer list from one of its franchisee's related to clients in its corporate territory. The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at December 31, 2016 and December 31, 2015. 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.

Intangible assets with a finite life are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. Impairment losses for assets other than goodwill are reversed in future periods if the circumstances that led to the impairment no longer exist. Refer to note 11 for further details.

(expressed in Canadian dollars)

10 Goodwill

The following table presents goodwill for the years ended December 31, 2016 and 2015:

	2016	2015
	$	$
Opening balance	1,893,914	1,591,079
Foreign currency translation	(56,516)	302,835
Closing balance	1,837,398	1,893,914

11 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. 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 has completed a review for impairment for each CGU, comparing the carrying amount of the CGU with the recoverable amount of the 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 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	2016	2015
	$	$
Syracuse	174,888	179,921
Albany	121,960	125,712
Milwaukee	862,357	889,228
New York City	678,193	699,053
Total goodwill	1,837,398	1,893,914

The Company assessed its impairment indicators related to its long-lived assets at December 31, 2016 and determined there was a potential indication of impairment on certain CGUs to warrant an analysis to be performed.

(expressed in Canadian dollars)

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

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. The recoverable amount was determined using value-in-use. The value-in-use calculation uses cash flow projections based on financial budgets approved by management.

The key assumptions included the following:

i. Revenue growth of each franchise and corporate location, which reflect the past experience of each location. Management has used growth rate ranges of 2% to 250% based on prior results of existing franchisees and the franchisees' time in the system. During the first five years of a franchisee's operation, higher growth rates are typically achieved.

ii. Pre-tax discount rates ranging from 26% to 41% (December 31, 2015 – 26% to 41%) were used and reflects the risks specific to each CGU.

iii. Cash flows from franchising are based on the current royalty rate charged to each franchise, as the rates are expected to continue in the future.

iv. For franchise CGUs, a cash flow period of up to 5 years was used, covering the remaining useful life of the franchise agreements. Management believes that this period is reasonable in light of the contractual terms of the franchise agreements as this is consistent with the assessed remaining useful life of the franchise agreements as originally determined.

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

vi. For corporate location CGUs, 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.

Based on the impairment review performed at December 31, 2016, the recoverable amount of the CGUs was higher than the carrying amounts of the CGUs, therefore there was no impairment.

12 Accounts payable and accrued liabilities

As at December 31, 2016 and December 31, 2015, accounts payable and accrued liabilities are comprised of:

	2016	2015
	$	$
Accounts payable	356,230	289,792
Accrued liabilities	772,683	669,770
Total accounts payable and accrued liabilities	1,128,913	959,562

(expressed in Canadian dollars)

13 Long-term debt

As at December 31, 2016 and December 31, 2015, long-term debt is comprised of:

	2016	2015
	$	$
Line of credit (i)	4,973,848	5,474,578
Less: deferred financing charges	-	(7,277)
Line of credit net of deferred financing charges	4,973,848	5,467,301
Truck loans (ii)	1,559,056	1,035,605
Finance lease liability (iii)	478,295	626,712
Term loans (iv)	658,631	1,085,760
Total long-term debt	7,669,830	8,215,378
Less: current portion	(5,619,461)	(1,087,933)
Total	2,050,369	7,127,445

(i) Line of credit

The line of credit was entered into on November 27, 2009 with a related party entity (see note 25) for a maximum amount of $4 million. The line of credit was originally repayable on November 27, 2014, bearing interest at a fixed rate of 10% per annum, and secured by a general security agreement over the Company's assets. Deferred financing charges in respect of this facility are charged to expense over the term of the facility. During the year ended December 31, 2011, the line of credit limit was increased to $5.37 million. During the year ended December 31, 2012, the line of credit was increased to $6.03 million. The terms of the agreement remained unchanged upon increasing the line of credit. The Company has drawn from its line of credit in order to finance the purchase of all of its corporate locations with the exception of Charlotte and for general business purposes. In September of 2013, the Company signed an amendment to its existing line of credit facility, extending the facility's term for an additional three years to November 27, 2017. The other terms of the agreement remained unchanged upon extending the facility's term. The total unamortized transactions costs as at September 2013 are amortized over the extended term of four years, ending November 27, 2017. The Company has $1.06 million available for use on its line as of December 31, 2016. Subsequent to year-end, on February 7, 2017, the Company signed an amendment to its existing line of credit facility, extending the facility's term for an additional two years to November 27, 2019. The other terms of the agreement remained unchanged. See note 25 for further details.

(expressed in Canadian dollars)

13 Long term debt (continued)

(ii) Truck loans

The loans noted below are secured by shredding vehicles. The information presented is as at December 31, 2016:

Origination	Initial amount	Payment (1)	Interest per annum	Asset carrying value	Loan value	Maturity
August 3, 2012	US$125,556	US$2,545	8.00%	CAD$139,278	CAD$26,544 US$19,769	August 3, 2017
October 24, 2013	US$187,950	US$3,731	7.00%	CAD$170,938	CAD$103,058 US$76,754	October 24, 2018
September 16, 2014	US$204,000	US$4,055	7.00%	CAD$255,672	CAD$162,660 US$121,144	September 16, 2019
June 23, 2015	US$229,039	US$4,520	6.75%	CAD$262,213	CAD$226,082 US$168,379	June 23, 2020
July 22, 2015	US$300,000	US$7,283	7.50%	CAD$349,328	CAD$274,448 US$204,400	July 22, 2019
December 22, 2015	US$80,000	US$2,480	7.50%	CAD$25,125	CAD$74,004 US$55,116	December 5, 2018
July 5, 2016	US$176,546	US$3,904	6.398%	CAD$245,287	CAD$208,911 US$155,590	September 5, 2020
September 5, 2016	US$381,572	US$7,392	5.95%	CAD$631,587	CAD$483,351 US$359,984	August 5, 2021

(1) Blended monthly payments of principal and interest.

(expressed in Canadian dollars)

13 Long term debt (continued)

(iii) Finance lease liability

The finance leases noted below are secured by shredding vehicles. The information presented is as at December 31, 2016:

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$171,609	CAD$106,424 US$79,261	US$37,680	December 20, 2018
July 17, 2014	US$226,432	US$3,861	7.62%	CAD$252,480	CAD$200,986 US$149,688	US$50,610	August 20, 2019
December 22, 2015	US$170,000	US$4,364	6.75%	CAD$162,957	CAD$170,885 US$127,270	US$34,000	January 5, 2019

(1) Blended monthly payments of principal and interest.

(2) The loan value includes the residual value.

Future minimum finance lease payments at December 31, 2016, stated in Canadian dollars, were as follows:

	2017 **$**	**2018** **$**	**2019** **$**	**Total** **$**
Lease payments	169,535	217,076	149,903	536,514
Finance charges	(30,723)	(22,980)	(4,516)	(58,219)
Net present values	138,812	194,096	145,387	478,295

The future minimum lease payments have been translated at the closing rate at December 31, 2016 using an exchange rate of USD$1.00 = CAD$1.3427.

(expressed in Canadian dollars)

13 Long term debt (continued)

(iv) 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 24):

(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;

(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;

(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; and

(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 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.

Subsequent to year-end, on January 23, 2017, the Company converted the following loan agreements into equity at a price of $0.30 per Common Share (refer to note 25):

(a) The 5 year loan agreement in the amount of CAD$525,750;

(b) The 5 year loan agreement in the amount of US$75,000; and

(c) The 4 year loan agreement in the amount of CAD$100,000.

On December 31, 2015 the Company purchased the assets of Recordshred Inc. As a result of this transaction the Company entered into a 3 year promissory note in the amount of US$100,000 with blended monthly payments of principal and interest of US$2,997 maturing December 5, 2018. The note bears interest at 5% per annum.

Long-term debt principal repayments as at December 31, 2016, stated in Canadian dollars, are as follows:

	2017 $	2018 $	2019 $	2020 $	2021 $	Total $
Principal repayments	5,480,648	1,096,544	344,351	192,359	77,639	7,191,541

The long-term debt principal repayments have been translated at the closing rate at December 31, 2016 using an exchange rate of USD$1.00 = CAD$1.3427.

(expressed in Canadian dollars)

14 Capital stock

a) Authorized

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

b) Issued and fully paid

During the year ended December 31, 2016, the Company issued 55,000 common shares. During the year ended December 31, 2015, there were no changes in issued common shares of the Company.

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

	Common stock	
	Number	**$**
Balance December 31, 2016	28,939,658	8,590,995
Balance December 31, 2015	28,884,658	8,585,808

Subsequent to year-end, on January 23, 2017, the Company closed its private placements and debt conversion, issuing 15,587,927 common shares. Refer to note 25.

c) Weighted average common shares

	2016	**2015**
Weighted average number of shares outstanding - basic	28,885,233	28,884,658
Dilutive potential ordinary shares		
- options	808,228	39,752
- convertible debentures	-	1,249,875
	808,228	1,289,627
Weighted average number of shares outstanding - diluted	**29,693,461**	**30,174,285**
Number of shares excluded from diluted earnings per share calculation due to anti-dilutive effect:		
- options	-	1,720,000
- convertible debentures	1,249,875	-

(expressed in Canadian dollars)

14 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 and employees of the Company;

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

iv) Shares to be optioned shall not exceed 2,893,966 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:

	2016		2015	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding – Beginning of year	1,830,000	0.17	1,252,500	0.18
Granted	325,000	0.29	730,000	0.15
Exercised	(55,000)	0.05	-	-
Expired	-	-	(152,500)	0.12
Outstanding – End of year	2,100,000	0.19	1,830,000	0.17

(expressed in Canadian dollars)

14 Capital stock (continued)

d) Stock options (continued)

The following table summarizes the stock options outstanding as at:

		2016			2015		
Exercise price $	**Issue date**	**Number of options outstanding**	**Weighted average remaining contractual life (yrs)**	**Options exercisable**	**Number of options outstanding**	**Weighted average remaining contractual life (yrs)**	**Options exercisable**
0.10	Sept 26, 2011	-	-	-	5,000	0.74	5,000
0.20	Nov 23, 2012	975,000	1.90	975,000	975,000	1.90	975,000
0.10	Aug 6, 2013	50,000	2.58	50,000	50,000	2.58	50,000
0.10	Jan 7, 2014	5,000	3.02	1,250	5,000	3.02	1,250
0.05	Jan 30, 2014	-	-	-	50,000	3.08	50,000
0.15	July 28, 2014	5,000	3.58	2,500	5,000	3.58	1,250
0.17	Dec 11, 2014	10,000	3.95	10,000	10,000	3.95	10,000
0.15	Jan 2, 2015	5,000	4.00	1,250	5,000	4.00	-
0.15	June 1, 2015	700,000	4.42	700,000	700,000	4.42	700,000
0.18	Aug 26, 2015	25,000	4.67	25,000	25,000	4.67	-
0.20	Apr 6, 2016	25,000	4.27	12,500	-	-	-
0.30	July 1, 2016	300,000	4.50	300,000	-	-	-
		2,100,000		2,077,500	1,830,000		1,792,500

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:

	2016	2015
Expected option life	5 years	5 years
Risk-free interest rate	0.60%	0.76%
Expected dividend yield	$nil	$nil
Expected volatility	149%	163%

During the year ended December 31, 2016, 325,000 options were granted (2015 – 730,000). 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, 2016, 55,000 stock options were exercised for proceeds of $3,000 (2015 - $Nil). The weighted average grant-date fair value of options granted during 2016 amounted to approximately $0.19 per option. The net stock compensation charge, after adjusting for stock option forfeitures, amounted to $87,130 (2015 - $52,188).

Subsequent to year-end, on January 23, 2017, 1,125,000 stock options were exercised for proceeds of $207,500. Refer to note 25.

(expressed in Canadian dollars)

15 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 (2015 – 9.5%).

	2016	**2015**
	$	**$**
Opening balance of liability component net of transaction costs	347,412	342,645
Accretion expense	4,764	4,767
Closing balance of liability component net of transaction costs	352,176	347,412
Equity component, net of transaction costs	27,710	27,710
Deferred tax liability related to the equity component	7,633	7,633
Equity component, net of transaction costs and tax	20,077	20,077

Subsequent to year-end, on January 23, 2017, the convertible debentures were converted to common shares. Refer to note 25.

(expressed in Canadian dollars)

16 Revenue

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

	2016	2015
	$	$
Royalties	1,879,438	1,600,882
Franchise fees	227,156	145,103
License fees	11,199	10,659
Shredding services	6,420,649	4,979,783
Sale of paper products	1,060,861	941,598
Total revenue	9,599,303	7,678,025

17 Corporate operating locations expenses by nature

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

	2016	2015
	$	$
Shredding vehicle and related expenses	1,137,982	857,924
Employee wages expense	2,390,941	1,606,201
Employee benefit expense	416,925	309,221
Office and administration expense	928,092	611,399
Total corporate operating expenses	4,873,940	3,384,745

(expressed in Canadian dollars)

18 Selling, general and administrative expenses by nature

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

	2016	**2015**
	$	**$**
Employee wages and benefits expense	988,024	854,260
Share-based compensation	87,130	52,188
Professional fees	295,668	224,501
Technology	388,746	342,865
Rent and office expense	140,994	154,593
Selling, development and travel	245,643	189,252
Broker's fee	57,876	-
Amortization of deferred financing charges	7,368	7,368
Other	131,798	150,090
Total selling, general and administrative expenses	2,343,247	1,975,117

Compensation of key management

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

	2016	**2015**
	$	**$**
Wages and benefits	520,156	376,862
Share-based compensation	5,413	26,448
Total	525,569	403,310

For the year ended December 31, 2016, compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer, Senior Vice President of Corporate Development and Senior Vice President of Operations. For the year ended December 31, 2015, compensation of key management personnel includes the Chief Executive Officer, Chief Financial Officer, Vice President of Finance (from September – October 2015) and Senior Vice President of Operations (from November - December 2015).

(expressed in Canadian dollars)

19 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:

	2016	2015
	$	$
Statutory income tax rate	26.5%	26.5%
Expected income tax expense based on above rates	19,625	310,746
Withholding tax	37,771	31,868
State tax	32,414	9,428
Non-deductible expenses	32,127	27,566
Unrecognized deductible temporary differences	(204,278)	(225,043)
Prior year taxes	13,854	8,122
Effect of foreign tax rates	(47,929)	153,082
Non-taxable income	(21,183)	14,035
Income tax (recovery) expense	(137,599)	329,804

The enacted tax rate in Canada is 26.50% (2015 - 26.50%) and in the United States is 38.82% (2015 – 38.82%). These rates have been applied in the tax provision calculation.

	2016	2015
	$	$
Provision for (recovery of) income taxes is comprised of:		
Current income taxes	62,107	63,453
Deferred income taxes	(199,706)	266,351
	(137,599)	329,804

Deferred tax

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

	2016	2015
	$	$
Deferred income tax liability:		
Taxable temporary difference on property and equipment and intangibles	(466,573)	(507,468)
Other	14,865	(17,916)
Unrealized foreign exchange	(377,696)	(406,665)
Non-capital losses	622,360	492,518
Net deferred income tax liability	(207,044)	(439,531)

(expressed in Canadian dollars)

19 Income taxes (continued)

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

	2016	2015
	$	$
Non-capital losses	5,171,583	6,813,151
Property, plant and equipment	4,264	8,405
Intangible assets	1,497,664	1,325,464
Financing costs	-	4,271
Other	549,729	-
	7,223,240	8,151,291

The Company has incurred Canadian non-capital losses of $5,171,583 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 $1,258,812 that can be carried forward to reduce taxes payable in the US. The losses expire at various times through December 31, 2035.

20 Commitments

The Company has the following lease commitments:

Albany, New York	Expires March 31, 2017
Charlotte, North Carolina	Expires April 30, 2017
Milwaukee, Wisconsin	Expires August 31, 2017
New York, New York	Expires October 31, 2017
Ft. Lauderdale, FL	Expires December 31, 2017
Mississauga, Ontario	Expires September 30, 2018
Syracuse, New York	Expires September 30, 2020

Certain contracts include renewal options for various periods of time. For the year ended December 31, 2016, the Company incurred $342,286 (December 31, 2015 - $256,399) 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	233,228
Between 1 and 5 years	119,334
Total	352,562

(expressed in Canadian dollars)

21 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, convertible debentures and contingent consideration approximates fair value as the rates are similar to rates currently available to the Company.

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

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

The Company's convertible debentures are valued at fair values using Level 1 inputs. The Company does not have any Level 2 or 3 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)

21 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, 2016	Loans and Receivables	Other Financial Liabilities	Total Carrying Amount	Fair Value
	$	$	$	$
Cash	1,011,443	-	1,011,443	1,011,443
Cash attributable to Ad Fund	261,304	-	261,304	261,304
Accounts receivable	913,696	-	913,696	913,696
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**

December 31, 2015	Loans and Receivables	Other Financial Liabilities	Total Carrying Amount	Fair Value
	$	$	$	$
Cash	848,197	-	848,197	848,197
Cash attributable to Ad Fund	176,129	-	176,129	176,129
Receivables	951,793	-	951,793	951,793
Notes receivable	206,306	-	206,306	177,627
Total assets	**2,182,425**	**-**	**2,182,425**	**2,153,746**
Payables and accruals	-	959,562	959,562	959,562
Notes payable	-	138,400	138,400	138,400
Long-term debt	-	8,215,378	8,215,378	8,215,378
Contingent consideration	-	69,200	69,200	69,200
Convertible debentures	-	347,412	347,412	347,412
Total liabilities	**-**	**9,729,952**	**9,729,952**	**9,729,952**

(expressed in Canadian dollars)

21 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 8.25% per annum. The line of credit facility has a fixed interest rate of 10% per annum and the term loans have a fixed interest rate of 9%. The truck loans have fixed interest rates ranging from 5.95% to 8.0% 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, 2016, 6 franchisees accounted for 65% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2015 - 6 franchises accounted for 72%). For the year ended December 31, 2016, 3 franchisees accounted for 23% of the Company's revenues related to franchising and licensing (December 31, 2015 - 3 franchisees accounted for 28%). As of December 31, 2016, there were no accounts and notes receivable over 90 days old (December 31, 2015 – 3%).

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, 2016, no customer accounted for more than 10% of the accounts receivable balance. For the years ended December 31, 2016 and 2015, no customer accounted for more than 10% of the Company's revenues in this category. As of December 31, 2016, 9% of accounts receivable in this category was over 90 days old (December 31, 2015 – 12%). As at December 31, 2016, the Company has not recorded an allowance for credit losses from receivables related to corporate operations (December 31, 2015 - $1,067). The Company does not have any reason to believe it will not collect all remaining balances.

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

	2016	2015
	$	$
Past due but not impaired		
60 to 90 days	58,968	53,976
91 days to 180 days	61,105	94,112

(expressed in Canadian dollars)

21 Financial instruments and fair values (continued)

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.

A subsidiary of the Company has loans denominated in a currency other than its functional currency of CAD$545,003 as at December 31, 2016 (December 31, 2015 – CAD$571,807).

The Company recorded a foreign exchange gain of $69,318 (December 31, 2015 - $1,043,435) during the fiscal year. Based on the financial liability held in the United States and denominated in CAD at December 31, 2016, a 5% increase or decrease in exchange rates would impact the Company's net earnings by approximately $30,000 (December 31, 2015 - $25,000).

Exchange rates utilized (USD to CDN):

	2016	**2015**
	$	$
December 31 close rate	1.3427	1.384
Average rate	**1.3253**	**1.279**

Liquidity risk

The Company's objective is to have sufficient liquidity to meet liabilities when due. The Company has incurred significant losses to date, and has a deficit of $8 million at December 31, 2016. 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 $6,815,121 at December 31, 2016 (December 31, 2015 - $2,140,384), are due to be settled within one year from the date of the statement of financial position, with the exception of the line of credit. On February 7, 2017 the line of credit was extended for an additional two years to November 27, 2019. The Company has current assets of $2,456,921 at December 31, 2016 (December 31, 2015 - $2,162,105) including a cash balance of $1,011,443 (December 31, 2015 - $848,197).

(expressed in Canadian dollars)

21 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	982,880	75,000	-	-
Notes payable	10,946	33,619	46,786	-
Convertible debentures	-	352,176	-	-
Contingent consideration	-	33,568	-	-
Long-term debt	164,827	5,454,634	2,050,371	-

Interest	**Less than 3 months** $	**3 months to 1 year** $	**2 – 5 years** $	**Over 5 years** $
Notes payable	1,142	2,598	1,504	-
Convertible debentures	-	28,125	-	-
Long-term debt	62,879	613,025	181,400	-

Total principal and interest	**Less than 3 months** $	**3 months to 1 year** $	**2 – 5 years** $	**Over 5 years** $
Accounts payable and accrued liabilities	982,880	75,000	-	-
Notes payable	12,088	36,217	48,290	-
Convertible debentures	-	380,301	-	-
Contingent consideration	-	33,568	-	-
Long-term debt	227,706	6,067,659	2,231,771	-

22 Capital management

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

To effectively manage its capital, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has sufficient liquidity to meet its operating and growth objectives.

The Company expects its current resources and projected cash flows from continuing operations to support its growth objectives. Neither the Company nor its subsidiaries are subject to any externally imposed capital requirements such as loan covenants or capital ratios.

There were no changes to the Company's approach to capital management during the current period.

(expressed in Canadian dollars)

23 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, 2016	December 31, 2016	December 31, 2016	December 31, 2016
ASSETS	$	$	$	$
Current assets				
Cash	290,689	646,141	74,613	1,011,443
Cash attributable to the Ad Fund	261,304	-	-	261,304
Trade receivables	155,607	712,978	45,111	913,696
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)

23 Segment reporting (continued)

	Franchising and licensing	Corporate locations	Corporate Overhead	Total
ASSETS	**December 31, 2015 $**	**December 31, 2015 $**	**December 31, 2015 $**	**December 31, 2015 $**
Current assets				
Cash	192,172	362,322	293,703	848,197
Cash attributable to the Ad Fund	176,129	-	-	176,129
Trade receivables	156,396	774,308	21,089	951,793
Prepaid expenses	8,808	67,192	25,751	101,751
Notes receivable from franchisees	84,235	-	-	84,235
Total current assets	617,740	1,203,822	340,543	2,162,105
Non-current assets				
Notes receivable from franchisees	122,071	-	-	122,071
Equipment	-	3,141,939	13,253	3,155,192
Intangible assets	617,971	2,187,980	574,297	3,380,248
Goodwill	-	1,893,914	-	1,893,914
Total assets	1,357,782	8,427,655	928,093	10,713,530
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	387,973	178,365	393,224	959,562
Current taxes payable	14,035	-	-	14,035
Current portion of contingent consideration	-	34,600	-	34,600
Current portion of notes payable	-	44,254	-	44,254
Current portion of long-term debt	-	1,087,933	-	1,087,933
Total current liabilities	402,008	1,345,152	393,224	2,140,384
Non-current liabilities				
Long-term debt	-	7,127,445	-	7,127,445
Note payable	-	94,146	-	94,146
Contingent consideration	-	34,600	-	34,600
Convertible debenture	-	-	347,412	347,412
Deferred tax liability	439,531	-	-	439,531
Total liabilities	841,539	8,601,343	740,636	10,183,518

(expressed in Canadian dollars)

23 Segment reporting (continued)

Geographic information

	December 31, 2016	December 31, 2015
Canada	**$**	**$**
Equipment	11,450	13,253
Intangible assets	309,253	574,297
United States		
Notes receivable from franchisees	199,290	206,306
Equipment	3,211,097	3,141,939
Intangible assets	2,065,426	2,805,951
Goodwill	1,837,398	1,893,914
Total		
Notes receivable from franchisees	199,290	206,306
Equipment	3,222,547	3,155,192
Intangible assets	2,374,679	3,380,248
Goodwill	1,837,398	1,893,914

Revenue

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

	December 31, 2016	December 31, 2015
United States	**$**	**$**
Royalties	1,879,438	1,600,882
Franchise fees	227,156	145,103
Shredding services	6,420,649	4,979,783
Sales of paper products	1,060,861	941,598
Middle East		
License fees	11,199	10,659

(expressed in Canadian dollars)

23 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, 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)	(447,644)	(2,343,247)
Depreciation and amortization	(618,475)	(920,296)	-	(1,538,771)
Foreign currency gain, net	-	-	69,318	69,318
Interest expense	-	(715,339)	(32,880)	(748,219)
Interest income	7,622	-	239	7,861
Loss on sale of assets		(136,016)	-	(136,016)
Income tax (expense) recovery	90,476	47,123	-	137,599
Net income (loss)	424,548	160,307	(410,967)	173,888

	For the year ended December 31, 2015			
	Franchising and licensing	**Corporate locations**	**Corporate overhead**	**Total**
	$	**$**	**$**	**$**
Revenue	1,756,644	5,921,381	-	7,678,025
Direct costs	-	(3,384,745)	-	(3,384,745)
Selling, general and administrative	(949,302)	(456,083)	(569,732)	(1,975,117)
Depreciation and amortization	(589,597)	(823,060)	-	(1,412,657)
Foreign currency gain, net	-	-	1,043,435	1,043,435
Interest expense	-	(758,367)	(32,880)	(791,247)
Interest income	11,544	-	814	12,358
Gain on sale of assets	-	51,991	-	51,991
Income tax expense	(54,025)	(275,779)	-	(329,804)
Net income	175,264	275,338	441,637	892,239

24 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. Included in accounts receivable at December 31, 2016, is $580 (2015 - $2,598) due from this franchise. During the year ended December 31, 2016, the Company earned royalties, service fees and franchise fees of $189,333 (2015 - $112,853) from this franchise. In June 2016, the Director was awarded the Orlando, Florida franchise for a purchase price of US$50,000. The Company financed 50% of the purchase price. Included in notes receivable from the franchisees is a US$25,000 three year note receivable at an interest rate of 5% per annum.

(expressed in Canadian dollars)

24 Related party balances and transactions (continued)

The Company has a line of credit facility with a related party entity, the Company's largest shareholder, for a maximum of $6.03 million, repayable on November 27, 2017, bearing interest at a fixed rate of 10% per annum. The Company has drawn from its line of credit in order to finance the purchase of all of its corporate locations with the exception of Charlotte and for general business purposes. The Company has $1.06 million available for use on its line as of December 31, 2016. See note 14 for further details. Subsequent to year-end, on February 7, 2017, the Company signed an amendment to its existing line of credit facility, extending the facility's term for an additional two years to November 27, 2019. Refer to note 25.

Included in selling, general and administrative expenses for the year ended December 31, 2016 are insurance premium amounts of $15,039 (December 31, 2015 - $18,489) paid to an insurance brokerage firm managed by a Director of the Company.

On December 31, 2012, the Company obtained equity and debt funding, directly or indirectly, from certain members of the Company's Board of Director's. 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 payable annually. The debenture holders may defer interest otherwise due and payable until the next interest payment date, in which case the deferred interest payment will accrue additional interest at 7.5% 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. Refer to note 15 and 25.

In order to finance the acquisition of the Charlotte location, the Company obtained loans from related parties. Refer to note 13 and 25.

25 Subsequent Events

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

The details of the private placements and debt conversions are as follows:

	Value	**Common Shares**	**Strike Price**
	$	Units	$
Private placement	4,034,300	13,447,669	0.30
Debt conversion	642,078	2,140,258	0.30
Conversion of debentures	375,000	1,250,002	0.30
Options exercised	207,500	1,125,000	0.15-0.30

(expressed in Canadian dollars)

25 Subsequent Events (continued)

Following these transactions, the Company has outstanding 46,902,587 Common Shares, options exercisable for 675,000 Common Shares and Warrants exercisable for an additional 2,002,150 Common Shares.

On February 7, 2017, the Company signed an amendment to its existing line of credit facility, extending the facility's term for an additional two years to November 27, 2019. The other terms of the original agreement remained unchanged upon extending the facility's term.

On March 31, 2017, the Company purchased the assets of the Proshred Northern Virginia franchise for a purchase price of $1,073,000. The acquisition was financed by utilizing Redishred's cash reserves as well as a vendor financing.