RediShred Capital Corp.

Consolidated Financial Statements
December 31, 2014 and 2013

(expressed in Canadian dollars)

April 10, 2015

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, 2014 and 2013, and the statements of consolidated comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2014 and 2013, 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, 2014 and 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and 2013 in accordance with International Financial Reporting Standards.

Grant Thornton LLP

Burlington, Canada
April 10, 2015

Chartered Accountants
Licensed Public Accountants

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at December 31, 2014 and 2013

(expressed in Canadian dollars)

	December 31, 2014 $	December 31, 2013 $
Assets		
Current assets		
Cash	366,211	348,998
Cash attributable to the Advertising Fund (note 5)	80,102	63,375
Trade receivables (note 6)	588,018	448,982
Prepaid expenses	80,841	98,018
Notes receivable from franchisees (note 7)	84,230	148,633
Total current assets	1,199,402	1,108,006
Non-current assets		
Notes receivable from franchisees (note 7)	159,841	166,112
Equipment (note 8)	2,594,476	2,195,083
Intangible assets (note 9)	3,504,707	4,059,247
Goodwill (notes 10 and 11)	1,591,079	1,455,467
Total non-current assets	7,850,103	7,875,909
Total assets	9,049,505	8,983,915
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 12)	731,356	606,508
Current portion of notes payable	102,452	112,804
Deferred revenue (note 13)	–	57,966
Current portion of long-term debt (note 14)	761,501	648,004
Contingent consideration	–	5,318
Total current liabilities	1,595,309	1,430,600
Non-current liabilities		
Long-term debt (note 14)	7,323,762	7,476,411
Long-term notes payable	–	98,452
Deferred tax liability (note 20)	154,076	214,350
Convertible debentures (note 16)	342,645	337,882
Total non-current liabilities	7,820,483	8,127,095
Total liabilities	9,415,792	9,557,695
Shareholders' deficiency		
Capital stock (note 15)	8,585,808	8,585,808
Contributed surplus	375,387	372,479
Accumulated foreign currency translation loss	(172,610)	(134,400)
Deficit	(9,154,872)	(9,397,667)
	(366,287)	(573,780)
Total liabilities and shareholders' deficiency	9,049,505	8,983,915

Commitments (note 21)

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, 2014 and 2013

(expressed in Canadian dollars)

	2014 $	2013 $
Revenue (note 17)	6,174,783	4,669,083
Corporate operating locations expenses (note 18)	(2,779,541)	(2,194,157)
Depreciation – equipment	(396,371)	(318,410)
Selling, general and administrative expenses (note 19)	(1,686,756)	(1,791,544)
Operating income	1,312,115	364,972
Amortization – intangible assets	(844,826)	(656,817)
Foreign exchange gain	502,928	352,971
Reversal of impairment (note 11)	27,452	431,180
Gains related to business combinations	–	148,228
Gain on sale of assets (note 8)	30,187	2,240
Interest expense	(842,249)	(712,098)
Interest income	9,793	7,055
	(1,116,715)	(427,241)
Income (loss) before income taxes	195,400	(62,269)
Income tax recovery (note 20)	47,395	21,802
Net income (loss) for the year	242,795	(40,467)
Other comprehensive loss		
Foreign currency translation loss	(38,210)	(62,839)
Comprehensive income (loss) for the year	204,585	(103,306)
Net income (loss) per share		
Basic and diluted	0.01	(0.00)
Weighted average number of commons shares outstanding – basic	28,884,658	28,884,658
Weighted average number of commons shares outstanding – diluted	28,904,538	28,884,658

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, 2014 and 2013

(expressed in Canadian dollars)

	Capital stock and warrants $ (note 15)	Contributed surplus $	Accumulated foreign currency translation loss $	Deficit $	Total shareholders' equity/(deficiency) $
Balance – January 1, 2013	8,585,808	367,957	(71,561)	(9,357,200)	(474,996)
Net loss for the year	–	–	–	(40,467)	(40,467)
Other comprehensive loss					
Foreign currency translation loss	–	–	(62,839)	–	(62,839)
Comprehensive loss for the year	–	–	–	–	(103,306)
Stock-based compensation (note 15)	–	4,522	–	–	4,522
Balance – December 31, 2013	8,585,808	372,479	(134,400)	(9,397,667)	(573,780)
Net income for the year	–	–	–	242,795	242,795
Other comprehensive income					
Foreign currency translation loss	–	–	(38,210)	–	(38,210)
Comprehensive income for the year	–	–	–	–	204,585
Stock-based compensation (note 15)	–	2,908	–	–	2,908
Balance – December 31, 2014	8,585,808	375,387	(172,610)	(9,154,872)	(366,287)

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, 2014 and 2013

(expressed in Canadian dollars)

Cash provided by (used in)	2014 $	2013 $
Operating activities		
Net income (loss) for the year	242,795	(40,467)
Items not affecting cash		
Amortization of equipment and intangible assets	1,248,565	997,313
Stock-based compensation	2,908	4,522
Unrealized foreign currency gain	(592,151)	(388,141)
Reversal of impairment of intangibles	(27,452)	(431,180)
Bad debt expense	45,009	14,001
Gain on acquisition	–	(144,194)
Gain on sale of assets	(30,187)	(2,240)
Income tax recovery	(47,395)	(21,802)
	842,092	(12,188)
Net change in non-cash working capital balances		
(Increase) in trade receivables	(139,036)	(24,918)
(Increase) decrease in prepaid expenses	17,177	(69)
Decrease (increase) in notes receivable from franchisees	70,674	(80,310)
(Decrease) increase in deferred revenue	(57,966)	57,966
Increase in accounts payable and accrued liabilities	124,847	101,998
Net cash from continuing operations	857,788	42,479
Financing activities		
Borrowings from long-term debt	237,191	1,472,325
Repayment of long-term debt	(607,233)	(234,529)
Repayment of notes payable	(108,804)	(7,537)
	(478,846)	1,230,259
Investing activities		
Cash paid on acquisition of franchises	–	(1,284,875)
Increase in cash held by advertising fund	(16,727)	(15,344)
Proceeds from sale of equipment	–	53,200
Purchase of equipment and intangible assets	(369,521)	(219,454)
	(386,248)	(1,466,473)
Effect of foreign exchange rate changes on cash	24,519	10,693
Net change in cash for the year	17,213	(183,042)
Cash – Beginning of year	348,998	532,040
Cash – End of year	366,211	348,998
Supplementary cash flow information		
Interest received	9,793	7,055
Interest paid	760,100	628,772
Income tax paid	13,227	–

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 (with the exception of Canada). 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, 2014 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, 2014 and December 31, 2013.

These consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as at December 31, 2014. Together, Redishred and its subsidiaries are referred to as "the Company."

The consolidated financial statements of the Company for the year ended December 31, 2014 were authorized for issue in accordance with a resolution of the Directors on April 10, 2015.

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 Canadian dollars 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 (loss) 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 24 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 note receivables 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.

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.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Impairment of financial assets (continued)

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 amortization

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

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

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 (loss) over their estimated useful lives. The re-acquired franchise rights are amortized over the remaining term of the initial Franchise Agreements.

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

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
Computer software	3 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 to sell. In assessing value-in-use and fair value less costs to sell, 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.

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 to sell, to determine if impairment exists.

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

(expressed in Canadian dollars)

3 Significant accounting policies (continued)

Provisions

Provisions are recognized in other liabilities when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted where the effect is material.

Income tax

Income tax comprises current and deferred income tax. Income tax is recognized in the statement of comprehensive income (loss) except to the extent that it relates to items recognized directly in other comprehensive income (loss) or directly in equity, in which case the income tax is also recognized directly in other comprehensive 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 subsidiaries and 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 except for noncurrent assets that are classified as held for sale in accordance with IFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations,* which are recognized and measured at fair value less cost to sell.

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 (loss) per share

Basic earnings (loss) per share is computed by dividing net income (loss) 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 Group'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, 2017. 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.

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) Impairment and reversals of impairment

The impairment testing and reversal of impairment testing of long-lived assets such as definite life intangibles involves judgement in making an assessment of whether the assets are exhibiting indicators of impairment or reversal and determining the structure of the impairment review (i.e. determination of cash-generating units ("CGUs") and allocation of intangibles to the CGUs).

(expressed in Canadian dollars)

4 Critical accounting estimates and judgements (continued)

Significant accounting judgements (continued)

ii) 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 and reversals of 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. The Company uses discounted cash flow based methods to determine these values. These discounted cash flow calculations typically use five-year and seven-year projections that are based on the operative plans approved by management. Cash flow projections take into account past experience and represent management's best estimate of future developments. Cash flows after the planning period are extrapolated using estimated growth rates. Key assumptions on which management has based its determination of fair value less costs to sell and value-in-use include estimated growth rates, discount rates, future cash flows, margins and tax rates. 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.

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 and liabilities.

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 20 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 8 and 9 for estimates and assumptions used.

iv) Share-based payments

The determination of the fair value of share-based compensation is not based on historical cost, but is derived based on subjective assumptions input into an option pricing model. The model requires that management make forecasts as to future events, including estimates of the average future hold period of issued stock options before exercise, expiry or cancellation; future volatility of the Company's share price in the expected hold period (using historical volatility as a reference); and the appropriate risk-free rate of interest. Stock-based compensation incorporates an expected forfeiture rate. The expected forfeiture rate is estimated based on historical forfeiture rates and expectations of future forfeiture rates, and is adjusted if the actual forfeiture rate differs from the expected rate.

The resulting value calculated is not necessarily the value that the holder of the option could receive in an arm's length transaction, given that there is no market for the options and they are not transferable. It is management's view that the value derived is highly subjective and dependent entirely upon the input assumptions made.

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 a percentage of each location's revenue. In accordance with *IAS 18 – Revenue*, the revenue, expenses of the Ad Fund are recorded net in the Company's statements of comprehensive income (loss) 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, 2014, the cash attributable to the Ad Fund amounted to $80,102 (2013 - $63,375).

(expressed in Canadian dollars)

6 Trade receivables

Trade receivables include receivables from franchisees and receivables from shredding customers. The trade receivables as at December 31, 2014 and December 31, 2013 are as follows:

	2014	2013
	$	$
Trade receivables	590,435	448,982
Less: Allowance for doubtful accounts	(2,417)	–
Trade receivables – net	588,018	448,982

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$2,215. The payments on the notes commence between dates ranging from January 15, 2012 to August 30, 2014 and mature between dates ranging from January 15, 2015 to February 1, 2019.

The notes receivable as at December 31, 2014 and December 31, 2013 are as follows:

	2014	2013
	$	$
Principal	244,071	329,198
Less: Current portion	(84,230)	(148,633)
Less: Allowance for impairment (note 22)	–	(14,453)
	159,841	166,112

At December 31, 2014, 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	Recycling equipment	Vehicles	Total
	$	$	$	$	$	$	$	$
As at January 1, 2013	126,199	59,485	154,563	423,992	922,918	92,901	52,710	1,832,768
Additions	1,994	3,411	19,734	279,995	642,292	–	–	947,426
Acquisitions	–	3,172	74,389	154,545	381,211	–	5,152	618,469
Sale of assets	–	–	(1,477)	(142,626)	(304,969)	(95,741)	(16,938)	(561,751)
Foreign exchange	4,063	590	12,841	35,895	128,079	2,840	20,659	204,967
As at December 31, 2013	132,256	66,658	260,050	751,801	1,769,531	–	61,583	3,041,879
Additions	5,198	420	77,481	152,565	382,416	–	–	618,080
Sale of assets	(8,045)	–	–	(50,576)	(84,106)	–	–	(142,727)
Foreign exchange	9,761	4,919	20,872	77,270	174,522	–	4,623	291,967
As at December 31, 2014	139,170	71,997	358,403	931,060	2,242,363	–	66,206	3,809,199

Accumulated depreciation	Computer equipment	Furniture & fixtures	Bins & shredding containers	Shredding vehicles - chassis	Shredding vehicles - box	Recycling equipment	Vehicles	Total
	$	$	$	$	$	$	$	$
As at January 1, 2013	96,061	53,473	39,147	109,059	233,196	23,183	11,254	565,373
Depreciation	10,119	4,929	39,883	75,768	172,887	2,535	12,289	318,410
Sale of assets	–	–	–	(28,886)	(58,487)	(26,778)	(6,676)	(120,827)
Foreign exchange	1,731	177	3,967	2,619	56,709	1,060	17,577	83,840
As at December 31, 2013	107,911	58,579	82,997	158,560	404,305	–	34,444	846,796
Depreciation	9,478	5,059	59,557	99,587	228,107	–	8,465	410,253
Sale of assets	–	–	–	(43,043)	(62,749)	–	–	(105,792)
Foreign exchange	8,860	4,399	6,125	11,702	29,838	–	2,542	63,466
As at December 31, 2014	126,249	68,037	148,679	226,806	599,501	–	45,451	1,214,723
Net book value								
As at December 31, 2013	24,345	8,079	177,053	593,241	1,365,226	–	27,139	2,195,083
As at December 31, 2014	12,921	3,960	209,724	704,254	1,642,862	–	20,755	2,594,476

During the year ended December 31, 2014, the Company sold two older shredding vehicles and purchased two new shredding vehicles, obtaining third party financing (refer to note 14). The Company also purchased computers, and shredding containers during the twelve months ended December 31, 2014. The foreign exchange adjustment is a result of the translation of corporate equipment from US functional currency dollars to Canadian presentation dollars at December 31, 2014 and December 31, 2013. Depreciation related to the corporate stores is included in the statement of comprehensive income (loss) in “corporate operating expenses.” Depreciation related to the franchising and licensing business is included in the statement of comprehensive income (loss) in “selling, general & administrative expenses.”

The Company has two shredding vehicles held under a finance lease arrangement. As of December 31, 2014, the net carrying amount of the related shredding vehicles, included as part of equipment is $448,321. The finance lease liabilities (refer to note 14) are secured by the related assets held under the finance leases.

(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, 2013	2,365,361	978,000	1,672,500	845,666	1,029,722	6,891,249
Acquisitions	–	–	–	100,969	762,422	863,391
Removal of original franchise agreements	(173,321)	–	–	–	–	(173,321)
Foreign exchange	193,492	–	–	61,524	94,081	349,097
As at December 31, 2013	2,385,532	978,000	1,672,500	1,008,159	1,886,225	7,930,416
Additions	–	–	–	–	14,713	14,713
Foreign exchange	294,769	–	–	94,080	178,348	567,197
As at December 31, 2014	2,680,301	978,000	1,672,500	1,102,239	2,079,286	8,512,326

Accumulated amortization	**Franchise agreements**	**Proshred system**	**Trademarks & intellectual property**	**Re-acquired franchise rights**	**Customer relationships**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
As at January 1, 2013	1,424,251	562,681	1,088,452	343,235	130,388	3,549,007
Amortization	171,143	80,741	113,042	155,641	136,248	656,815
Reversal of previous impairment	(132,382)	(72,931)	(225,867)	–	–	(431,180)
Removal of original franchise agreements	(73,812)	–	–	–	–	(73,812)
Foreign exchange	128,107	–	–	28,731	13,501	170,339
As at December 31, 2013	1,517,307	570,491	975,627	527,607	280,137	3,871,169
Amortization	215,859	97,800	167,250	163,700	196,148	840,757
Reversal of previous impairment	(27,452)	–	–	–	–	(27,452)
Foreign exchange	225,830	–	–	58,650	38,665	323,145
As at December 31, 2014	1,931,544	668,291	1,142,877	749,957	514,950	5,007,619
Net book value						
As at December 31, 2013	868,225	407,509	696,873	480,552	1,606,088	4,059,247
As at December 31, 2014	748,757	309,709	529,623	352,282	1,564,336	3,504,707

During the year ended December 31, 2014 the Company purchased a client list in the Charlotte market. The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at December 31, 2014 and December 31, 2013. Amortization of reacquired franchise rights and customer relationships for the period is included in the statement of comprehensive income (loss) in "corporate operating expenses" and amortization of the remaining intangible assets is included in the statement of comprehensive income (loss) in "selling, general and administrative expenses." 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)

9 Intangible assets (continued)

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. At December 31, 2014, the Company recorded a reversal of a portion of the previously reported impairment of $27,452 (December 31, 2013 – $431,180). Refer to note 11.

10 Goodwill

The following table presents goodwill for the years ended December 31, 2014 and 2013:

	2014	2013
	$	$
Opening balance	1,455,467	1,361,705
Foreign currency translation	135,612	93,762
Closing balance	1,591,079	1,455,467

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 unallocated assets consist of computer equipment, furniture, computer software, the Proshred system, trademarks and intellectual property. The carrying amount of the group of CGUs that include the unallocated corporate assets is compared with the recoverable amount of the group of CGUs in testing for impairment.

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.

(expressed in Canadian dollars)

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

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

Cash Generating Unit	2014	2013
	$	$
Syracuse	151,152	138,269
Albany	105,610	96,609
Milwaukee	747,042	683,369
New York City	587,275	537,220
Total goodwill	1,591,079	1,455,467

The Company assessed its impairment indicators related to its long-lived assets at December 31, 2014 and determined there was sufficient indication of impairment on certain CGUs to warrant an analysis to be performed.

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 Company then performed the impairment test for the unallocated, aggregate corporate assets and assessed whether impairment exists at a Company-wide level. 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 100% 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 55% (December 31, 2013 – 16% to 19%) 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 20% 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.

(expressed in Canadian dollars)

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

Based on the impairment review performed at December 31, 2014, the recoverable amount of the CGUs was higher than the carrying amounts at the Company-wide level and the Company recorded a reversal of impairment of $27,452 related to the Company's Franchise agreements (refer to note 9). The events and circumstances that lead to this reversal include: improved overall cash flow margins, accretion to cash as a result of the Charlotte and Miami acquisitions and the addition of new franchisees and the related cash flows. The reversal of impairment was limited to restoring the carrying amounts such that they did not exceed the carrying amounts that would have been determined, net of amortization, had no impairment loss been recognized in prior periods. As at December 31, 2014, the Company has reversed all prior impairment losses.

At December 31, 2013, the recoverable amount of the CGUs was higher than the carrying amounts at the Company-wide level and the Company recorded a reversal of impairment of $431,180 related to the Company's Trademarks, Franchise agreements and Proshred system.

12 Accounts payable and accrued liabilities

As at December 31, 2014 and December 31, 2013, accounts payable and accrued liabilities are comprised of:

	2014	2013
	$	$
Accounts payable	332,584	273,224
Accrued liabilities	398,772	333,284
Total accounts payable and accrued liabilities	731,356	606,508

13 Deferred revenue

During the year ended December 31, 2013, the Company received $57,966 from its new franchisee in Southern New Jersey for the down payment of the franchise fee. The down payment and the remaining franchise fee were recognized as franchise fee revenue in January 2014, when the required training was performed.

(expressed in Canadian dollars)

14 Long-term debt

As at December 31, 2014 and December 31, 2013 long-term debt is comprised of:

	2014	2013
	$	$
Line of credit (i)	5,769,860	5,982,184
Less: deferred financing charges	(14,722)	(22,086)
Line of credit net of deferred financing charges	5,755,138	5,960,098
Truck loans (ii)	806,077	755,656
Finance lease liability (iii)	386,855	144,434
Term loans (iv)	1,137,193	1,264,227
Total long-term debt	8,085,263	8,124,415
Less: current portion	(761,501)	(648,004)
Total	7,323,762	7,476,411

(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 its corporate locations including Syracuse, Albany, and Milwaukee in 2010 and New York City and Miami in 2012 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 is amortized over the extended term of four years, ending November 27, 2017. The Company has $263,234 available for use on its line as of December 31, 2014.

(ii) Truck loans

On November 11, 2011, the Company entered into a loan and security agreement in the amount of US$240,000, repayable with monthly blended payments of principal and interest of US$5,690 maturing October 3, 2015. The loan bears interest at 8.14% per annum and is secured by two shredding vehicles with a carrying value of CAD$255,792 at December 31, 2014. The value of the loan on December 31, 2014 is CAD$63,749 (US$54,828).

On July 5, 2012, the Company entered into a loan and security agreement in the amount of US$121,128, repayable with monthly blended payments of principal and interest of US$3,718 maturing July 5, 2015. The loan bears interest at 6.502% per annum and is secured by one shredding vehicle with a carrying value of CAD $73,194 at December 31, 2014. The value of the loan on December 31, 2014 is CAD$29,608 (US$25,465).

(expressed in Canadian dollars)

14 Long-term debt (continued)

ii) Truck loans (continued)

On August 3, 2012, the Company entered into a loan and security agreement in the amount of US$125,556, repayable with monthly blended payments of principal and interest of US$2,545 maturing August 13, 2017. The loan bears interest at 8% per annum and is secured by one shredding vehicle with a carrying value of CAD$166,807 at December 31, 2014. The value of the loan on December 31, 2014 is CAD$85,046 (US$73,145).

On January 3, 2013, the Company traded in one of its shredding vehicles for a larger shredding vehicle. The related loan and security agreement entered into on August 8, 2012, in the amount of US$121,000, was replaced with a new loan and security agreement. The new loan and security agreement for US$119,906 is repayable with monthly blended payments of principal and interest of US$2,382 maturing January 5, 2018. The loan bears interest at 7% per annum and is secured by one shredding vehicle with a carrying value of CAD$225,209 at December 31, 2014. The value of the loan on December 31, 2014 is CAD$91,784 (US$78,940).

On January 31, 2013, the Company entered into a loan and security agreement in the amount of US$171,516, repayable with monthly blended payments of principal and interest of US$3,407 maturing February 5, 2018. The loan bears interest at 7% per annum and is secured by one shredding vehicle with a carrying value of CAD$227,413 at December 31, 2014. The value of the loan on December 31, 2014 is CAD$134,441 (US$115,628).

On October 24, 2013, the Company entered into a loan and security agreement in the amount of US$187,950, repayable with monthly blended payments of principal and interest of US$3,731 maturing October 24, 2018. The loan bears interest at 7% per annum and is secured by one shredding vehicle with a carrying value of CAD$191,612 at December 31, 2014. The value of the loan on December 31, 2014 is CAD$174,229 (US$149,849).

On September 16, 2014, the Company entered into a loan and security agreement in the amount of US$204,000, repayable with monthly blended payments of principal and interest of US$4,055 maturing September 16, 2019. The loan bears interest at 7% per annum and is secured by one shredding vehicle with a carrying value of CAD$275,419 at December 31, 2014. The value of the loan on December 31, 2014 is CAD$227,222 (US$195,426).

iii) Finance lease liability

On November 15, 2013, the Company entered into a finance lease in the amount of US$137,035, repayable with monthly blended payments of principal and interest of US$2,296 with a final payment of US$37,680, maturing December 20, 2018. The loan bears interest at 7.95% per annum and is secured by one shredding vehicle with a carrying value of CAD$192,094 at December 31, 2014. The balance of the loan on December 31, 2014 is CAD$137,683 (US$118,417).

On July 17, 2014, the Company entered into a finance lease in the amount of US$226,432, repayable with monthly blended payments of principal and interest of US$3,861 with a final payment of US$50,610, maturing August 20, 2019. The loan bears interest at 7.621% per annum and is secured by one shredding vehicle with a carrying value of CAD$256,227 at December 31, 2014. The value of the loan on December 31, 2014 is CAD$249,171 (US$214,304).

(expressed in Canadian dollars)

14 Long-term debt (continued)

iii) Finance lease liability (continued)

Future minimum finance lease payments at December 31, 2014, stated in Canadian dollars, were as follows:

	Minimum lease payments due					
	2015	**2016**	**2017**	**2018**	**2019**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Lease payments	85,917	85,917	85,917	127,058	90,275	475,084
Finance charges	(27,904)	(23,248)	(18,217)	(15,170)	(3,689)	(88,229)
Net present values	58,013	62,669	67,700	111,888	86,586	386,855

The future minimum lease payments have been translated at the closing rate at December 31, 2014 using an exchange rate of USD$1.00 = CAD$1.1627.

(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 25):

(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. The estimated fair value of the loan on December 31, 2014 is CAD$525,750;

(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. The estimated fair value of the loan on December 31, 2014 is CAD$87,202 (US$75,000);

(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 the estimated fair value of the loan on December 31, 2014 is CAD$70,563;

(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 and the estimated fair value of the loan on December 31, 2014 is CAD$41,021 (US$35,281); and

(e) A 5 year loan and security agreement in the amount of US$500,000, repayable with monthly blended payments of principal and interest of US$12,681 maturing August 5, 2017. The loan bears interest at 10% per annum and is secured by four shredding vehicles and two non-shredding vehicles with a carrying value of CAD$467,428 at December 31, 2014. The value of the loan on December 31, 2014 is CAD$412,655 (US$354,911).

(expressed in Canadian dollars)

14 Long-term debt (continued)

Long-term debt principal repayments as at December 31, 2014, stated in Canadian dollars, were as follows:

	2015 $	2016 $	2017 $	2018 $	2019 $	Total $
Principal repayments	703,488	892,018	5,359,256	717,167	41,197	7,713,126

The long-term debt principal repayments have been translated at the closing rate at December 31, 2014 using an exchange rate of USD$1.00 = CAD$1.1627.

15 Capital stock

a) Authorized

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

b) Issued and fully paid

For the years ended December 31, 2014 and December 31, 2013, 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		Warrants (expired)		
	Number	$	Number	$	Total $
Balance, December 31, 2013 and December 31, 2014	28,884,658	8,585,808	–	–	8,585,808

c) Weighted average common shares

The basic weighted average number of common shares outstanding for the years ended December 31, 2014, was 28,884,658 (December 31, 2013 - 28,884,658).

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 technical consultants 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;

(expressed in Canadian dollars)

15 Capital stock (continued)

d) Stock options (continued)

iv) Shares to be optioned shall not exceed 2,888,465 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:

	2014		2013	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding – Beginning of year	1,462,500	0.18	1,691,250	0.24
Granted	70,000	0.08	50,000	0.10
Expired	(280,000)	0.14	(278,750)	0.50
Outstanding – End of year	1,252,500	0.18	1,462,500	0.18

(expressed in Canadian dollars)

15 Capital stock (continued)

d) Stock options (continued)

The following table summarizes the stock options outstanding as at:

		2014			2013		
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**
0.14	May 27, 2010	–	–	–	280,000	0.40	280,000
0.15	Oct 19, 2010	10,000	0.81	10,000	10,000	1.81	7,500
0.12	May 2, 2011	140,000	0.33	140,000	140,000	1.33	140,000
0.10	Sept 26, 2011	5,000	1.74	3,750	5,000	2.74	2,500
0.10	Aug 1, 2012	2,500	0.58	2,500	2,500	1.58	2,500
0.20	Nov 23, 2012	975,000	2.90	975,000	975,000	3.90	975,000
0.10	Aug 6, 2013	50,000	3.58	50,000	50,000	4.58	–
0.10	Jan 7, 2014	5,000	4.02	–	–	–	–
0.05	Jan 30, 2014	50,000	4.08	50,000	–	–	–
0.15	July 28, 2014	5,000	4.58	–	–	–	–
0.17	Dec 11, 2014	10,000	4.95	10,000	–	–	–
		1,252,500		1,241,250	1,462,500		1,407,500

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:

	2014	**2013**
Expected option life	5 years	4 years
Risk-free interest rate	1.57%	1.57%
Expected dividend yield	$nil	$nil
Expected volatility	175%	229%

70,000 options were granted during the year ended December 31, 2014 (2013 – 50,000).The vesting periods vary dependent on the individual option grant, either immediately or over the term of the option. The weighted average grant-date fair value of options granted during 2014 amounted to approximately $0.08 per option. The net stock compensation charge, after adjusting for stock option forfeitures, amounted to $2,908 (2013 - $4,522).

(expressed in Canadian dollars)

15 Capital stock (continued)

e) Warrants

The Company issued two tranches of warrants in 2009. The first tranche of 3,000,000 warrants was issued in connection with the private placement and the second tranche of 1,000,000 warrants related to the line of credit obtained. In connection with the line of credit, the warrants were issued on April 28, 2010 when the line of credit was first drawn upon in accordance with the line of credit agreement. These warrants were recorded in the consolidated financial statements in 2009 as performance by the counterparty was complete at that date. The fair value of these warrants has been recorded as deferred financing charges and is being amortized into income over the term of the facility and is also subject to a two-year holding period commencing on the date of issuance. This is a non-cash transaction and has been excluded from the consolidated statements of cash flows. All outstanding warrants are expired as of December 31, 2014.

16 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 (2013 – 9.5%).

	2014	2013
	$	$
Opening balance of liability component net of transaction costs	337,882	333,119
Accretion expense	4,763	4,763
Closing balance of liability component net of transaction costs	342,645	337,882
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

(expressed in Canadian dollars)

17 Revenue

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

	2014	2013
	$	$
Royalties	1,144,394	970,989
Franchise fees	96,609	263,963
License fees	8,271	6,848
Shredding services	4,071,379	2,788,373
Sale of paper products	854,130	592,943
Rental revenue	–	45,967
Total revenue	6,174,783	4,669,083

On January 1, 2014, the Company began operating the Miami location directly as a corporate location. Prior to January 1, 2014, the Company earned royalty revenue and rental revenue from the Miami location, which operates one shredding vehicle. On July 31, 2013, the Company acquired the Charlotte franchise location. Prior to July 31st of 2013, the Company earned royalty revenue from the Charlotte franchise location.

18 Corporate operating locations expenses by nature

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

	2014	2013
	$	$
Shredding vehicle and related expenses	756,072	634,971
Employee wages expense	1,231,775	960,945
Employee benefit expense	278,035	190,965
Office and administration expense	513,659	407,276
Total corporate operating expenses	2,779,541	2,194,157

During the year ended December 31, 2014, the Company operated six corporate locations – Syracuse, Albany, Milwaukee, New York City, Charlotte and Miami. During the year ended December 31, 2013, the Company operated five corporate locations – Syracuse, Albany, Milwaukee, New York City and Charlotte (since July 31, 2013).

(expressed in Canadian dollars)

19 Selling, general and administrative expenses by nature

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

	2014	2013
	$	$
Employee wages expense	706,866	744,296
Employee benefits expense	60,085	54,132
Share-based compensation	2,908	4,522
Professional fees	227,883	247,281
Technology	248,287	209,194
Rent and office expense	97,421	111,072
Selling and development	99,793	165,277
Bad debt expense	45,009	14,453
Amortization of deferred financing charges	7,368	22,086
Other	191,136	219,231
Total selling, general and administrative expenses	1,686,756	1,791,544

Compensation of key management

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

	2014	2013
	$	$
Wages and benefits	502,616	617,026
Share-based compensation	2,777	4,475
Total	505,393	621,501

Key management personnel are comprised of the Chief Executive Officer, Chief Financial Officer, Vice President of Operations, Executive Vice President and former President.

(expressed in Canadian dollars)

20 Income taxes

Reconciliation of total tax recovery

The effective rate on the Company's income (loss) 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:

	2014	2013
	$	$
Statutory income tax rate	26.5%	26.5%
Expected income tax expense (recovery) based on above rates	51,781	(16,502)
Non-deductible expenses	12,247	(41,467)
Unrecognized deductible temporary differences	(202,563)	19,001
Prior year taxes	12,123	–
Effect of foreign tax rates	100,504	40,219
Other	(21,487)	(23,053)
Income tax recovery	(47,395)	(21,802)

The enacted tax rate in Canada, is 26.50% (26.50% in 2013) and in the United States is 38.82% (2013 – 38.82%), where the Company operates has been applied in the tax provision calculation.

	2014	2013
	$	$
Provision for (recovery of) income taxes is comprised of:		
Current income taxes	12,879	(21,964)
Deferred income taxes	(60,274)	162
	(47,395)	(21,802)

Deferred tax

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

	2014	2013
	$	$
Deferred income tax liability:		
Taxable temporary difference on property and equipment and intangibles	(472,514)	(460,873)
Other	(130)	(2,796)
Unrealized foreign exchange	(178,582)	(133,026)
Non-capital losses	497,150	382,345
Net deferred income tax liability	(154,076)	(214,350)

(expressed in Canadian dollars)

20 Income taxes (continued)

The following temporary differences and non-capital losses have not been recognized as realization is not considered probable:

	2014	2013
	$	$
Non-capital losses	6,735,294	6,987,369
Property, plant and equipment	12,259	16,810
Intangible assets	1,671,277	1,696,960
Financing costs	8,541	12,812
Other	–	14,001
	8,427,371	8,727,952

The Company has incurred Canadian non-capital losses of $6,876,512 that can be carried forward to reduce taxes payable in Canada. The losses expire at various times through December 31, 2034. The Company has incurred US non-capital losses of $1,145,809 that can be carried forward to reduce taxes payable in the US. The losses expire at various times through December 31, 2034.

21 Commitments

The Company leases office premises in Mississauga, Ontario, Canada. The lease expires on September 30, 2018. Additionally, the Company leases facilities in Albany, which expires on March 31, 2016, Syracuse, which expires on August 31, 2015, Milwaukee, which expires on August 31, 2017, New York City, which expires on September 30, 2015 and Charlotte, which expires on April 30, 2017. Certain contracts include renewal options for various periods of time. For the year ended December 31, 2014, the Company incurred $215,961 (December 31, 2013 - $240,528) 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	196,837
Between 1 and 5 years	317,714
Total	514,551

22 Financial instruments and fair values

The Company has financial assets that consist of: cash, trade receivables and notes receivable from franchisees. The Company's financial liabilities include accounts payable, 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.

(expressed in Canadian dollars)

22 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 a fixed rate 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% and 10%. The truck loans have fixed interest rates ranging from 6.502% to 8.14% per annum. These financial instruments are subject to interest rate fair value 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, 2014, 6 franchisees accounted for 72% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2013 - 6 franchises accounted for 79%). For the year ended December 31, 2014, 3 franchisees accounted for 28% of the Company’s revenues related to franchising and licensing (December 31, 2013 - 3 franchisees accounted for 31%). As of December 31, 2014, 3% of accounts and notes receivable were over 90 days old and related to one franchisee (December 31, 2013 – 0%).

The following is a reconciliation of the allowance for credit losses from accounts and notes receivables from franchisees:

	2014	2013
	$	$
Opening balance	14,453	–
Additions	45,009	14,453
Write-offs	(59,462)	–
Foreign exchange	–	–
Closing balance	–	14,453

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

(expressed in Canadian dollars)

22 Financial instruments and fair values (continued)

Receivables related to corporate operations

The accounts receivable are exposed to credit risk from the possibility that customers may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one customer. All new, one-time customers are required to make payments for services by way of preapproved credit card. In addition, the receivable balances with customers are monitored on an ongoing basis and collection efforts are dedicated on an ongoing basis to limit the Company's exposure to bad debt. At December 31, 2014 and December 31, 2013, no customer accounted for more than 10% of the accounts receivable balance. For the years ended December 31, 2014 and December 31, 2013, no customer accounted for more than 10% of the Company's revenues in this category. As of December 31, 2014, 4% of accounts receivable in this category was over 90 days old (December 31, 2013 – 2%). The Company has recorded an allowance for credit losses of $2,417 from receivables related to corporate operations (December 31, 2013 - $nil). 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:

	2014	2013
	$	$
Past due but not impaired		
60 to 90 days	21,916	21,209
91 days to 180 days	17,097	9,979
Impaired		
60 to 90 days	–	–
91 days to 180 days	2,468	–

Foreign exchange risk

Subsidiaries of the Company have loans denominated in a currency other than their functional currency of CAD$596,313 as at December 31, 2014 (December 31, 2013 – CAD$618,717). The Company realized a foreign exchange gain of $509,928 (December 31, 2013 - $352,971) during the fiscal year. Based on the financial liability held in the United States and denominated in CAD at December 31, 2014, a 5% increase or decrease in exchange rates would impact the Company's net earnings by approximately $25,639 (December 31, 2013 - $28,920).

(expressed in Canadian dollars)

22 Financial instruments and fair values (continued)

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 $9.1 million at December 31, 2014. 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 $1,595,309 at December 31, 2014 (December 31, 2013 - $1,430,600), are due to be settled within one year from the date of the statement of financial position. The Company has current assets of $1,199,402 at December 31, 2014 (December 31, 2013 - $1,108,006) including a cash balance of $366,211 (December 31, 2013 - $348,998).

Principal	**Less than 3 months $**	**3 months to 1 year $**	**2 – 5 years $**	**Over 5 years $**
Accounts payable and accrued liabilities	651,464	–	–	–
Notes payable	29,079	73,373	–	–
Convertible debentures	–	–	342,647	–
Long-term debt	132,638	628,864	7,338,483	–

Interest	**Less than 3 months $**	**3 months to 1 year $**	**2 – 5 years $**	**Over 5 years $**
Notes payable	1,577	1,934	–	–
Convertible debentures	–	28,125	56,250	–
Long-term debt	60,372	689,164	1,353,407	–

Liquidity risk

Total principal and interest	**Less than 3 months $**	**3 months to 1 year $**	**2 – 5 years $**	**Over 5 years $**
Accounts payable and accrued liabilities	651,464	–	–	–
Notes payable	30,656	75,307	–	–
Convertible debentures	–	28,125	398,897	–
Long-term debt	193,010	1,318,028	8,691,890	–

(expressed in Canadian dollars)

22 Financial instruments and fair values (continued)

Fair value of financial instruments

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

These 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. The carrying value of the Company's notes receivable from franchisees at December 31, 2014, amounted to $244,071 (December 31, 2013 - $314,744) with fair value estimated to be $201,532 (December 31, 2013 - $306,286), respectively.

23 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.

24 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 two reportable operating segments, (1) the granting and managing of shredding business franchises under the "Proshred" trademark (Franchising and licensing), and (2) the operation of corporately owned shredding businesses (Corporate locations).

(expressed in Canadian dollars)

24 Segment reporting

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

	Franchising and licensing	Corporate locations	Corporate Overhead	Total
ASSETS	December 31, 2014 $	December 31, 2014 $	December 31, 2014 $	December 31, 2014 $
Current assets				
Cash	77,662	98,190	190,359	366,211
Cash attributable to the Ad Fund	80,102	–	–	80,102
Trade receivables	118,200	449,951	19,867	588,018
Prepaid expenses	4,420	52,801	23,620	80,841
Notes receivable from franchisees	84,230	–	–	84,230
Total current assets	364,614	600,942	233,846	1,199,402
Non-current assets				
Notes receivable from franchisees	159,841	–	–	159,841
Equipment	–	2,589,812	4,664	2,594,476
Intangible assets	748,747	1,916,619	839,341	3,504,707
Goodwill	–	1,591,079	–	1,591,079
Total assets	1,273,202	6,698,452	1,077,851	9,049,505
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	131,784	280,013	319,559	731,356
Current portion of notes payable	2,081	100,371	–	102,452
Current portion of long-term debt	–	761,501	–	761,501
Total current liabilities	133,865	1,141,885	319,559	1,595,309
Non-current liabilities				
Long-term debt	–	7,323,762	–	7,323,762
Convertible debenture	–	–	342,645	342,645
Deferred tax liability	154,076	–	–	154,076
Total liabilities	287,941	8,465,647	662,204	9,415,792

(expressed in Canadian dollars)

24 Segment reporting (continued)

ASSETS	Franchising and licensing December 31, 2013 $	Corporate locations December 31, 2013 $	Corporate Overhead December 31, 2013 $	Total December 31, 2013 $
Current assets	100,857	140,902	107,239	348,998
Cash				
Cash attributable to the Ad Fund	63,375	–	–	63,375
Trade receivables	74,980	357,917	16,085	448,982
Prepaid expenses	27,128	46,482	24,408	98,018
Notes receivable from franchisees	148,633	–	–	148,633
Total current assets	414,973	545,301	147,732	1,108,006
Non-current assets				
Notes receivable from franchisees	166,112	–	–	166,112
Equipment	–	2,195,083	–	2,195,083
Intangible assets	866,422	2,088,437	1,104,388	4,059,247
Goodwill	–	1,455,467	–	1,455,467
Total assets	1,447,507	6,284,288	1,252,120	8,983,915
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	119,022	235,562	251,924	606,508
Current portion of notes payable	9,271	103,533	–	112,804
Current portion of long-term debt	–	648,004	–	648,004
Contingent consideration	–	5,318	–	5,318
Deferred revenue	57,966			57,966
Total current liabilities	186,259	992,417	251,924	1,430,600
Non-current liabilities				
Long-term debt	–	7,476,411	–	7,476,411
Long- portion of notes payable	–	98,452	–	98,452
Convertible debenture	–	–	337,882	337,882
Deferred tax liability	214,350	–	–	214,350
Total liabilities	400,609	8,567,280	589,806	9,557,695

The Company purchased capital assets of $613,416 (2013 - $947,006) and sold equipment of $142,727 (2013 - $561,751) related to its corporate locations during the year ended December 31, 2014. The Company incurred $4,664 in capital expenditures related to its franchising operations for the year ended December 31, 2013 (December 31, 2013 - $420). The Company incurred $618,469 in capital expenditures related to its corporate locations and had no capital expenditures related to its franchising operations during the year ended December 31, 2013.

(expressed in Canadian dollars)

24 Segment reporting (continued)

Geographic information

	December 31, 2014	December 31, 2013
Canada	**$**	**$**
Equipment	4,664	–
Intangible assets	839,341	1,104,388
United States		
Notes receivable from franchisees	244,071	314,745
Equipment	2,589,812	2,195,083
Intangible assets	2,665,366	2,954,859
Goodwill	1,591,079	1,455,467
Total		
Notes receivable from franchisees	244,071	314,745
Equipment	2,594,476	2,195,083
Intangible assets	3,504,707	4,059,247
Goodwill	1,591,079	1,455,467

Revenue

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

	December 31, 2014	December 31, 2013
United States	**$**	**$**
Royalties	1,144,394	970,989
Franchise fees	96,609	263,963
Shredding services	4,071,379	2,788,373
Sales of paper products	854,130	592,943
Rental revenue	–	45,967
Middle East		
License fees	8,271	6,848

(expressed in Canadian dollars)

24 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, 2014			
	Franchising and licensing $	Corporate locations $	Corporate overhead $	Total $
Revenue	1,249,274	4,925,509	–	6,174,783
Direct costs	–	(2,779,541)	–	(2,779,541)
Corporate overhead	(720,934)	(477,150)	(481,304)	(1,679,388)
Depreciation and amortization	(551,778)	(696,787)	–	(1,248,565)
Foreign currency gain, net	–	–	502,928	502,928
Interest expense	–	(809,369)	(32,880)	(842,249)
Interest income	9,793	–	–	9,793
Gain on sale of assets	–	30,187	–	30,187
Reversal of impairment of intangible assets	27,452	–	–	27,452
Income tax recovery	47,395	–	–	47,395
Net income (loss)	61,202	192,849	(11,256)	242,795

	For the year ended December 31, 2013			
	Franchising and licensing $	Corporate locations $	Corporate overhead $	Total $
Revenue	1,241,800	3,427,283	–	4,669,083
Direct costs	–	(2,194,157)	–	(2,194,157)
Corporate overhead	(755,201)	(403,805)	(610,452)	(1,769,458)
Depreciation and amortization	(445,004)	(552,309)	–	(997,313)
Foreign currency gain, net	–	–	352,971	352,971
Interest expense	–	(679,208)	(32,890)	(712,098)
Interest income	7,055	–	–	7,055
Gains (losses) related to business combinations	(96,700)	244,928	–	148,228
Gain on sale of assets	–	2,240	–	2,240
Reversal of impairment of intangible assets	132,382	–	298,798	431,180
Income tax recovery	21,802	–	–	21,802
Net income (loss)	106,134	(155,028)	8,427	(40,467)

For the year ended December 31, 2014, the Company operated six corporate locations. For the year ended December 31, 2013, the Company operated four corporate locations since January 1, 2013 and one additional corporate location since August 1, 2013.

(expressed in Canadian dollars)

25 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, 2014, is $571 (2013 - $727) due from this franchise. During the year ended December 31, 2014, the Company earned royalty and service fees amounting to $94,828 (2013 - $88,981) from this franchise.

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 its' corporate locations including Syracuse, Albany, Milwaukee in 2010 and New York City and Miami in 2012 as well as for general business purposes. (Refer to note 14).

Included in selling, general and administrative expenses for the year ended December 31, 2014 are insurance premium amounts of $19,645 (December 31, 2013 - $18,564) 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 16).

In order to finance the acquisition of the Charlotte location, the Company obtained the following loans from related parties (refer to note 14):

(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. The estimated fair value of the loan on December 31, 2014 is CAD$525,750;

(a) 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. The estimated fair value of the loan on December 31, 2014 is CAD$87,202 (US$75,000);

(b) 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 the estimated fair value of the loan on December 31, 2014 is CAD$70,563;

(c) 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 and the estimated fair value of the loan on December 31, 2014 is CAD$41,021 (US$35,281); and

(d) a 5 year loan and security agreement in the amount of US$500,000, repayable with monthly blended payments of principal and interest of US$12,681 maturing August 5, 2017. The loan bears interest at 10% per annum and is secured by four shredding vehicles and two non-shredding vehicles with a carrying value of CAD$467,428 at December 31, 2014. The estimated fair value of the loan on December 31, 2014 is CAD$412,655 (US$354,911).