

RediShred Capital Corp.

Consolidated Interim Financial Statements
March 31, 2020 and 2019
(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

May 26, 2020

In accordance with National Instrument 51-102, released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited consolidated interim financial statements for the period ended March 31, 2020.

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at March 31, 2020 and December 31, 2019

(expressed in Canadian dollars)

	2020 \$	2019 \$
Assets		
Current assets		
Cash and cash equivalents	6,969,593	10,063,511
Cash attributable to the Advertising Fund (note 3)	116,676	155,162
Trade receivables (note 4)	2,554,260	1,857,158
Prepaid expenses	526,523	388,223
Notes receivable from franchisees (note 5)	72,795	124,043
Total current assets	10,239,847	12,588,097
Non-current assets		
Notes receivable from franchisees (note 5)	297,374	276,575
Tangible assets (note 7)	14,849,104	12,335,590
Intangible assets (note 8)	16,856,744	12,990,916
Goodwill (note 9)	17,470,002	14,102,815
Deferred tax asset (note 18)	1,479,322	1,475,684
Total non-current assets	50,952,546	41,181,580
Total assets	61,192,393	53,769,677
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,548,719	1,814,056
Deferred revenue	130,638	130,638
Income taxes payable	9,967	7,069
Current portion of long-term debt (note 12)	3,501,404	2,875,391
Notes payable (note 10)	411,335	391,298
Lease liability (note 13)	887,963	805,920
Contingent consideration (note 11)	1,811,388	2,131,454
Total current liabilities	9,301,414	8,155,826
Non-current liabilities		
Long-term debt (note 12)	15,573,550	13,069,238
Deferred revenue	347,679	354,538
Notes payable (note 10)	160,021	221,605
Lease liability (note 13)	1,932,404	1,906,570
Contingent consideration (note 11)	324,414	161,603
Total non-current liabilities	18,338,068	15,713,554
Total liabilities	27,639,482	23,869,380
Shareholders' equity		
Capital stock (note 14)	35,543,272	35,543,272
Contributed surplus	1,119,139	1,056,504
Accumulated foreign currency translation loss	(739,582)	(666,286)
Deficit	(2,369,918)	(6,033,193)
Total liabilities and shareholders' equity	61,192,393	53,769,677

Subsequent events (note 23)

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

Approved on behalf of the Board of Directors

RediShred Capital Corp.

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2020 and 2019

(expressed in Canadian dollars)

	2020 \$	2019 \$
Revenue (note 15)	6,593,579	5,202,806
Corporate location expenses (note 16)	(4,220,345)	(2,784,275)
Selling, general and administrative expenses (note 17)	(1,013,910)	(798,790)
Income before depreciation	1,359,324	1,619,741
Depreciation – tangible assets	(844,679)	(587,436)
Operating income	514,645	1,032,305
Interest expense	(195,115)	(122,295)
Interest income	34,115	8,293
Income before the following	353,645	918,303
Amortization – intangible assets	(513,337)	(248,449)
Transaction recovery (note 11)	187,337	–
Gain on sale of assets	–	131,254
Foreign exchange gain (loss)	3,629,543	(232,131)
Income before income taxes	3,657,188	568,977
Income tax recovery (expense) (note 18)	6,087	(23,665)
Net income for the period	3,663,275	545,312
Foreign currency translation loss	(73,296)	(35,790)
Comprehensive income for the period	3,589,979	509,522
Net income per share		
Basic	0.046	0.008
Diluted	0.047	0.008
Weighted average number of common shares outstanding – basic	78,500,605	66,558,230
Weighted average number of common shares outstanding – diluted	80,380,274	68,121,833

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

RediShred Capital Corp.

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2020 and 2019

(expressed in Canadian dollars)

	Capital stock and warrants \$ (note 14)	Contributed surplus \$	Accumulated foreign currency translation loss \$	Deficit \$	Total shareholders' equity \$
Balance – January 1, 2019	24,961,090	890,757	(649,893)	(5,254,419)	19,947,535
Net income for the period	–	–	–	545,312	545,312
Foreign currency translation loss	–	–	(35,790)	–	<u>(35,790)</u>
Comprehensive income for the period					509,522
Issue of shares (note 14)	–	1,507	–	–	1,507
Stock-based compensation (note 14)	–	40,021	–	–	40,021
Balance – March 31, 2019	24,961,090	932,285	(685,683)	(4,709,107)	20,498,585
Balance – January 1, 2020	35,543,272	1,056,504	(666,286)	(6,033,193)	29,900,297
Net income for the period	–	–	–	3,663,275	3,663,275
Foreign currency translation loss	–	–	(73,296)	–	<u>(73,296)</u>
Comprehensive income for the period					3,589,979
Stock-based compensation (note 14)	–	62,635	–	–	62,635
Balance – March 31, 2020	35,543,272	1,119,139	(739,582)	(2,369,918)	33,352,911

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

RediShred Capital Corp.

Consolidated Statements of Cash Flows

For the three months ended March 31, 2020 and 2019

(expressed in Canadian dollars)

	2020	2019
	\$	\$
Cash provided by (used in)		
Operating activities		
Net income for the period	3,663,275	545,312
Items not affecting cash		
Amortization of tangible and intangible assets	1,358,016	835,885
Stock-based compensation	62,635	40,021
Unrealized foreign currency (gain) loss	(3,435,878)	241,165
Transaction recovery	(187,337)	–
Other income	–	131,254
Income tax recovery	–	32,413
	<u>1,460,711</u>	<u>1,826,050</u>
Net change in non-cash working capital balances		
(Increase) in trade receivables	(115,171)	(478,391)
(Increase) in prepaid expenses	(106,140)	(139,850)
Increase (decrease) in accounts payable and accrued liabilities	484,678	(67,973)
(Decrease) in income taxes payable	–	(120,052)
(Decrease) in deferred revenue	(45,309)	(57,758)
	<u>1,678,769</u>	<u>962,026</u>
Financing activities		
Borrowings from long-term debt	3,669,222	583,944
Repayment of long-term debt	(852,837)	(307,477)
Issuance of capital stock (net of fees)	–	1,350
Payment of contingent considerations	(914,168)	(74,689)
Repayment (issuance) of notes receivable	60,616	7,867
Payment of notes payable	(94,022)	(100,101)
Repayment of lease liabilities	(228,594)	(135,994)
	<u>1,640,217</u>	<u>(25,100)</u>
Investing activities		
Cash paid on acquisitions	(5,474,280)	(8,760,643)
Decrease in cash held by advertising fund	48,466	22,201
Purchase of tangible and intangible assets	(1,293,311)	(716,357)
Proceeds from sale of assets	–	(13,337)
	<u>(6,719,125)</u>	<u>(9,468,135)</u>
Effect of foreign exchange rate changes on cash	<u>306,223</u>	<u>(189,511)</u>
Net change in cash for the period	(3,093,918)	(8,720,720)
Cash – Beginning of period	<u>10,063,511</u>	<u>8,830,669</u>
Cash – End of period	<u>6,969,593</u>	<u>109,949</u>

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

1 Corporate information and nature of operations

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

Redishred manages and operates the Proshred brand and business platform (“system”) in the United States and internationally. Redishred operates the Proshred system under two business models, (1) franchising in the United States, (2) via direct operation of shredding trucks and facilities in eleven locations in the United States, as of March 31, 2020.

2 Significant Accounting Policies

Basis of Presentation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. The consolidated financial statements should be read in conjunction with the most recently issued Annual Report of Redishred for the year ended December 31, 2019, which includes information necessary or useful to understanding the Company’s business and financial statement presentation. These interim consolidated financial statements comprise the financial statements of Redishred and its subsidiaries as at March 31, 2020. Together, Redishred and its subsidiaries are referred to as “the Company.”

The Company’s significant accounting policies were presented as Note 3 to the Audited Consolidated Financial Statements for the year ended December 31, 2019 and have been consistently applied in the preparation of these consolidated financial statements.

The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. Certain prior period amounts have been reclassified to conform to the current period’s presentation. These interim consolidated financial statements were prepared on a going concern basis, under the historical cost convention. The interim consolidated financial statements are presented in Canadian dollars, which is Redishred’s presentation currency.

During the first quarter of 2020, the global spread of the COVID-19 virus has led to significant disruptions to businesses worldwide, resulting in an economic slowdown. In many countries, including Canada and the United States, measures such as travel bans, quarantines, social distancing and closures of non-essential services have been taken to contain the spread of the virus. Governments have responded with monetary and fiscal interventions in an attempt to stabilize economic conditions. The Company has considered the potential negative impacts and cash flow difficulties of the virus on its franchisees, customers, suppliers and lenders. The impacts and length of time of the COVID-19 pandemic are currently unknown. The Company has used the best information available as at March 31, 2020, in determining its estimates and the assumptions that affect the carrying amounts of assets and liabilities, and earnings for the period. Actual results could differ from those estimates.

The interim consolidated financial statements of the Company for the three months ended March 31, 2020 were authorized for issue in accordance with a resolution of the Directors on May 26, 2020.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

3 Advertising fund

The Company manages an advertising fund (the "Ad Fund") established to collect and administer funds contributed for use in regional and national advertising programs, and amongst other things, initiatives designed to increase sales and enhance general public recognition, acceptance and use of the Proshred System. The fund contributions are segregated, designated for a specific purpose and the Company acts, in substance, as an agent with regard to these contributions. Ad Fund contributions are required to be made from both franchised and Company owned and operated locations and are based on the annual level of revenue from each location. The Ad Fund contributions and expenses from the Company owned locations have been eliminated on consolidation.

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

The Ad Fund related contributions and expenses as well as cash balance as at March 31, 2020 and December 31, 2019 are as follows:

For the 3 months ended March 31,	2020	2019
	\$	\$
Ad Fund contributions	47,592	70,357
Ad Fund expenses	(77,047)	(112,947)
Ad Fund deficit	<u>(29,455)</u>	<u>(42,590)</u>

As at,	March 31, 2020	December 31, 2019
	\$	\$
Cash attributable to the Ad Fund	116,676	155,162

4 Trade and other receivables

Trade receivables include receivables from franchisees and receivables from shredding and recycling customers. Other receivables include receivables related to Harmonized sales tax ("HST") refunds and receivables related to an insurance claim. The net trade and other receivables as at March 31, 2020 and December 31, 2019 are as follows:

	March 31, 2020	December 31, 2019
	\$	\$
Trade receivables	2,532,637	1,803,930
Other receivables	46,392	55,520
Less: Allowance for doubtful accounts	(24,769)	(2,292)
Trade receivables – net	<u>2,554,260</u>	<u>1,857,158</u>

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

5 Notes receivable from franchisees

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

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

	March 31, 2020	December 31, 2019
	\$	\$
Opening balance	400,618	89,946
Add: new notes	—	415,616
Less: repayments	(30,449)	(104,944)
Closing balance	370,169	400,618
Less: current portion	(72,795)	(124,043)
Long-term portion	297,374	276,575

6 Acquisitions

The Company acquired the Proshred Connecticut business from its franchisee on March 1, 2020 as well as a customer list from Shark Shredding in Connecticut. The Company conducted the acquisitions to increase its long-term cash flows and to increase its market share in the United States.

The purchase price of each acquisition was allocated to the assets acquired (including all intangible assets arising from the purchase) and liabilities assumed based on their estimated fair value at the date of each acquisition. The Company translated the fair values of all assets acquired, liabilities assumed and consideration given using the foreign currency exchange rate on the date of the acquisitions.

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

	Connecticut	Shark Shredding
Exchange rate used	1.33	1.37
Assets acquired		
Net Working capital	354,848	—
Tangible assets	1,133,567	—
Customer relationships	2,818,229	20,550
Reacquired franchise rights	185,061	—
Goodwill	2,037,201	—
	<u>6,528,906</u>	<u>20,550</u>
Consideration given		
Cash	5,453,000	20,550
Contingent consideration (note 11)	767,986	—
Payable	188,598	—
Lease liability	119,322	—
	<u>6,528,906</u>	<u>20,550</u>
Acquisition costs (expensed in statement of comprehensive income)	<u>38,997</u>	<u>695</u>

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

6 Acquisitions (continued)

The contingent consideration liability related to the acquisition is tied to:

- (a) the gross profit over an 18-month period post acquisition; and
- (b) the selling, general and administrative costs being within a targeted range over a 12-month period post acquisition.

The fair values of the assets were determined on the basis of observable market prices, where possible. The fair values of the customer relationships were determined by estimating the discounted level of future cash flows anticipated from the recurring customer relationships purchased. The fair value of the re-acquired franchise rights were determined by discounting the cash flows from the franchise royalty stream over the remaining contractual term of the franchise agreement.

The pro forma consolidated results of the Company, as if the acquisition had been closed on January 1, 2020, would result in estimated revenue of \$7,042,110 (compared to reported revenue of \$6,593,579) and estimated net income of \$3,687,274 (compared to reported net income of \$3,663,275). In preparing the pro forma results, revenue and costs have been included as if the business was acquired on January 1, 2020 and intercompany transactions had been eliminated. This information is not necessarily indicative of the results of the Company that would have occurred had the purchases actually been made at the beginning of the period presented or indicative of the future results of the Company.

The total revenue of the acquisition included in the total reported consolidated revenue is \$176,928. The total income of the acquisition included in the total reported Statement of Comprehensive Income is \$14,723.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

7 Tangible assets

	March 31, 2020			December 31, 2019		
	Cost	Accumulated depreciation	Net carrying value	Cost	Accumulated depreciation	Net carrying value
Computer equipment	\$ 349,211	(292,445)	\$ 56,766	\$ 313,779	(272,186)	\$ 41,593
Furniture & fixtures	267,437	(172,916)	94,521	255,375	(153,721)	101,654
Bins & shredding containers	2,181,130	(928,388)	1,252,743	1,805,818	(770,287)	1,035,531
Shredding vehicles - chassis	4,816,282	(1,588,929)	3,227,353	3,888,079	(1,286,009)	2,602,070
Shredding vehicles - box	10,362,597	(3,570,314)	6,792,284	8,294,950	(2,969,279)	5,325,671
Vehicles	211,538	(166,503)	45,035	183,062	(145,957)	37,105
Baling equipment	528,186	(53,162)	475,023	486,530	(34,208)	452,322
Right of use assets	3,631,671	(726,291)	2,905,379	3,253,706	(514,062)	2,739,644
Total tangible assets	22,348,052	(7,498,947)	14,849,104	18,481,300	(6,145,709)	12,335,590

	December 31, 2019					March 31 2020	
	Net carrying value	Additions	Acquisitions	Depreciation	Disposition of Assets	Foreign exchange	Net carrying value
Computer equipment	\$ 41,593	\$ 23,656	\$ -	\$ (10,370)	\$ -	\$ 1,887	\$ 56,766
Furniture & fixtures	101,654	2,066	-	(15,114)	-	5,915	94,521
Bins & shredding containers	1,035,531	70,266	149,745	(91,459)	-	88,660	1,252,743
Shredding vehicles - chassis	2,602,070	344,976	255,360	(197,817)	-	222,764	3,227,353
Shredding vehicles - box	5,325,671	787,260	595,840	(330,946)	-	414,459	6,792,284
Vehicles	37,105	800	13,300	(9,093)	-	2,923	45,035
Baling equipment	452,322	-	-	(16,025)	-	38,726	475,023
Right of use assets	2,739,644	-	119,322	(173,855)	-	220,268	2,905,379
Total tangible assets	12,335,590	1,229,024	1,133,567	(844,679)	-	995,601	14,849,104

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

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

8 Intangible assets

	March 31, 2020			December 31, 2019		
	Cost	Accumulated amortization	Net carrying value	Cost	Accumulated amortization	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer software	353,345	(54,557)	298,788	239,690	(41,884)	197,806
Re-acquired franchise rights	797,214	(207,214)	590,000	553,621	(104,131)	449,490
Customer relationships	19,722,127	(3,754,171)	15,967,956	15,395,138	(3,051,518)	12,343,620
Total intangible assets	20,872,686	(4,015,943)	16,856,744	16,188,449	(3,197,534)	12,990,916

	January 1, 2020						March 31, 2020
	Net carrying value	Additions	Sale of assets	Acquisitions	Amortization	Foreign exchange	Net carrying value
	\$	\$	\$	\$	\$	\$	\$
Computer software	197,806	109,709	-	-	(9,876)	1,149	298,788
Re-acquired franchise rights	449,490	-	-	185,061	(94,168)	49,617	590,000
Customer relationships	12,343,620	-	-	2,838,179	(409,293)	1,195,451	15,967,956
Total intangible assets	12,990,916	109,709	-	3,023,240	(513,337)	1,246,217	16,856,744

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

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

9 Goodwill

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

	March 31, 2020	December 31, 2019
	\$	\$
Opening balance	14,102,815	4,812,448
Acquisition	2,037,201	9,663,762
Foreign currency translation	1,329,986	(373,395)
Closing balance	17,470,002	14,102,815

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

10 Notes payable

As at March 31, 2020, notes payable is comprised of:

Origination	Initial amount	Payment ⁽¹⁾	Interest per annum	Current portion	Long-term portion	Maturity
April 2, 2018	USD\$20,000	USD\$880	5.25%	CAD\$1,235 USD\$875	– –	April 4, 2020
October 1, 2018	USD\$550,000	USD\$16,484	5.00%	CAD\$263,712 USD\$187,029	CAD\$160,021 USD\$113,489	October 5, 2021
January 31, 2019	USD\$75,000	USD\$3,166	1.25%	CAD\$48,795 USD\$34,606	– –	January 31, 2021
January 31, 2019	USD\$150,000	USD\$6,332	1.25%	CAD\$97,593 USD\$69,215	– –	January 31, 2021
Total Notes Payable				CAD\$411,335 USD\$291,725	CAD\$160,021 USD\$113,489	

(1) Blended monthly payments of principal and interest.

11 Contingent consideration

The Company has recorded contingent consideration liabilities as part of the businesses acquired. The contingent consideration liabilities are paid to the vendors if certain financial results are achieved. During the three months ended March 31, 2020, the Company recorded a transaction recovery of \$187,337 related to the Kansas acquisition. In this instance, the contingent consideration was not fully earned due to targeted revenue levels not being met in the first twelve months post closing.

As of March 31, 2020, contingent consideration is comprised of:

Acquisition	Origination	Initial amount	Current Portion	Long-term Portion	Maturity
North Virginia	March 31, 2017	USD\$98,000	CAD\$16,074 USD\$11,400	CAD\$4,019 USD\$2,850	March 31, 2021
Safe Shredding	October 1, 2018	USD\$500,000	CAD\$235,002 USD\$166,668	CAD\$127,334 USD\$90,308	October 1, 2021
Chicago	October 1, 2019	USD\$1,223,362	CAD\$939,191 USD\$666,093	– –	October 1, 2020
Connecticut	March 1, 2020	USD\$615,759	CAD\$621,121 USD\$440,551	CAD\$193,061 USD\$136,922	September 1, 2021
Total contingent consideration			CAD\$1,811,388 USD\$1,284,712	CAD\$324,414 USD\$230,080	

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

12 Long-term debt

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

	March 31, 2020	December 31, 2019
	\$	\$
Bank facilities	15,217,987	13,123,568
Less: transaction costs	(276,730)	(249,957)
Net bank facilities (i)	14,941,257	12,873,611
Truck loans (ii)	4,133,697	3,071,018
Total long-term debt	19,074,954	15,944,629
Less: current portion	(3,445,608)	(2,875,391)
Total long-term debt	15,629,346	13,069,238

(i) Bank facilities

As of March 31, 2020, the Company has the following secured senior credit facilities:

1. An operating line of credit of CAD\$1 million – amount drawn down - \$nil as at March 31, 2020 and December 31, 2019;
2. A non-revolving term loan in the amount of CAD\$3 million – amount drawn down - CAD\$936,480 as at March 31, 2020 and CAD\$1,036,817 as at December 31, 2019 and;
3. A non-revolving term loan in the amount of USD\$12.5 million (advances can be taken in either USD or CAD equivalent, at the Company's discretion) – amount drawn down - CAD\$14,281,507 as at March 31, 2020 and CAD\$12,086,751 as at December 31, 2019.

On March 31, 2020, the non-revolving term loan was amended to increase the amount from USD\$10 million to USD\$12.5 million.

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

Date of Advance	Initial amount	Interest per annum	Amortization period	March 31, 2020 Balance	December 31, 2019 Balance
	\$			\$	\$
August, 2017	2,006,743	4.95%	60 months	936,480	1,036,817
May, 2019	6,003,210	3.50%	84 months	5,298,085	5,492,638
November, 2019	6,664,242	3.50%	84 months	6,295,422	6,594,113
March, 2020	2,688,000	2.99%	84 months	2,688,000	–
Total bank indebtedness				15,217,987	13,123,568

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

As of March 31, 2020, the Company has CAD\$2.0 million available on its senior credit facilities.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

12 Long-term debt (continued)

(i) Bank facilities (continued)

Subsequent to March 31, 2020, in response to the impacts of COVID-19, the Company negotiated with its financial institution the deferral of its principal payments for a six-month period beginning in April 2020. Interest only payments will be made during the six-month period.

The bank credit facilities as at March 31, 2020, contain financial covenants that require the Company to maintain certain financial ratios and meet certain financial thresholds. In particular, the facility contains covenants that require the Company to maintain the following:

1. A minimum fixed charge coverage ratio of 1.25:1 which is defined as earnings before interest, taxes, depreciation and amortization ("EBITDA") less cash taxes and unfunded capital expenditures to total principal and interest repayments;
2. A maximum senior funded debt to EBITDA ratio of 3.00:1 which is defined as total senior debt divided by EBITDA;
3. A maximum total funded debt to EBITDA ratio of 3.50:1 which is defined as total debt to EBITDA;
4. Capital expenditures are not to exceed USD\$1.7 million in any fiscal year; and
5. Unfunded capital expenditures are not to exceed USD\$300,000 in any fiscal year.

The ratio covenants are measured at the end of each quarter on a trailing 12-month basis. As at March 31, 2020, the Company was in compliance with all of the banking covenants with the exception of one. The senior funded debt to EBITDA ratio was above the 3.00 maximum at 3.09. Subsequent to March 31, 2020, the Company's financial institution waived the financial covenants required for the first and second quarter of 2020 as a result of COVID-19.

(ii) Truck loans

The Company has established a USD\$1.7 million line of credit for the purchase of shredding vehicles with a lender in the United States. The line of credit is available for renewal in increments of one year, with annual credit reviews completed. The interest rate is based on prevailing market rates at the time the line is used. As of March 31, 2020, the Company has received an advance of USD\$1,700,000 on the line of credit (December 31, 2019 – USD\$1,298,789), which is included in the truck loans balance. The Company has no remaining balance available for use on the line of credit as of March 31, 2020 (December 31, 2019 – USD\$401,211).

As at March 31, 2020, the Company has the following related to truck loans:

	Loan value	Carrying value of assets pledged	Range of interest rates	Range of Origination Dates	Range of Maturity Dates
	\$	\$			
Truck loans	4,133,697	5,254,155	4.54% - 6.75%	June 23, 2015 – March 2, 2020	June 23, 2020 – March 2, 2025

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

12 Long-term debt (continued)

(iii) Related party line of credit

The Company has a related party line of credit facility for a maximum amount of \$2.0 million. The line of credit facility matures on July 16, 2022 and bears interest at a fixed rate of 10% per annum. The line of credit is secured by a second in priority general security agreement over the Company's assets. As at March 31, 2020, the facility has not been drawn upon (December 31, 2019 - \$nil).

13 Lease liabilities

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

Lease liability	Number of ROU assets leased	Range of remaining term	Range of interest rates	Lease balance as at March 31, 2020
				\$
Office and warehouse building	11	September 2020 to August 2025	6%	2,029,652
Shredding vehicles	7	August 2021 to October 2022	5.95% to 6.50%	790,715

The activity related to the lease liabilities for the three months ended March 31, 2020 is as follows:

	\$
Opening balance, January 1, 2020	2,712,490
Acquisitions	119,322
Interest expense	(30,919)
Lease payments	(159,904)
Foreign exchange	179,378
Closing balance, March 31, 2020	2,820,367
Less: current portion	(887,963)
Long-term portion	1,932,404

The total interest expense on lease liabilities included in the Consolidated Statement of Comprehensive Income is \$30,919. The total cash outflows on lease liabilities for the three months ended March 31, 2020 is \$271,687.

14 Capital stock

a) Authorized

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

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

14 Capital stock (continued)

b) Issued and fully paid

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

	Common stock		Warrants		Total	
	Number	\$	Number	\$	Number	\$
Balance March 31, 2020	78,500,605	34,813,408	1,823,400	600,008	80,324,005	35,413,416
Balance December 31, 2019	78,500,605	34,813,408	1,823,400	600,008	80,324,005	35,413,416

c) Weighted average number of common shares

The basic weighted average number of common shares outstanding for the three months ended March 31, 2020, was 78,500,605 (December 31, 2019 – 72,449,429). The diluted weighted average number of common shares outstanding for the three months ended March 31, 2020, was 80,380,274 (December 31, 2019 – 74,477,053).

d) Warrants

The Company issued 2,002,150 warrants on January 23, 2017 as part of the private placement. Each warrant is exercisable into one Common Share at a price of \$0.36 per Common Share for a period of five years and expire on January 23, 2022. The warrants have been classified as equity instruments. The fair values of the warrants were determined using the Black-Scholes option pricing model. There were no warrants exercised during the three months ended March 31, 2020 (3,750 – three months ended March 31, 2019). There are 1,823,400 warrants outstanding as of March 31, 2020.

e) Stock options

The following table summarizes the movements in the Company's stock options during the three months ended March 31, 2020 and the year ended December 31, 2019:

	2020		2019	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding – opening	2,050,150	0.52	1,785,500	0.47
Granted	177,000	0.75	347,150	0.76
Exercised	–	–	(72,500)	0.37
Expired	(5,000)	0.10	(10,000)	0.13
Outstanding – closing	<u>2,222,150</u>	0.54	<u>2,050,150</u>	0.52

For the three months ended March 31, 2020, the net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$62,635 (for the three months ended March 31, 2019 – \$40,021).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

15 Revenue

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

For the three months ended March 31,	<u>2020</u>	<u>2019</u>
	\$	\$
Royalties and license fees	497,391	567,229
Franchise fees	45,309	57,758
Ad Fund contributions	47,592	70,357
Shredding services	5,184,431	3,518,128
Sale of paper products	531,487	862,937
Electronic waste services	287,369	126,397
Total revenue	<u>6,593,579</u>	<u>5,202,806</u>

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

16 Corporate location expenses

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

For the three months ended March 31,	<u>2020</u>	<u>2019</u>
	\$	\$
Shredding vehicle and related expenses	893,892	584,498
Acquisition costs	59,004	-
Employee wages expense	2,188,954	1,499,852
Employee benefit expense	425,574	295,098
Office and administration expense	652,921	404,827
Total corporate location expenses	<u>4,220,345</u>	<u>2,784,275</u>

17 Selling, general and administrative expenses

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

	<u>2020</u>	<u>2019</u>
	\$	\$
Employee wages and benefits	463,974	369,330
Share-based compensation	62,635	40,021
Acquisition costs	86,030	31,348
Travel	80,366	38,505
Technology	92,386	79,650
Other expenses	151,472	126,989
Ad Fund expenses	77,047	112,947
Total selling, general and administrative expenses	<u>1,013,910</u>	<u>798,790</u>

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

17 Selling, general and administrative expenses (continued)

Compensation of key management

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

For the three months ended March 31,	2020	2019
	\$	\$
Wages and benefits	216,983	251,943
Share-based compensation	55,041	20,714
Total	272,024	272,657

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

18 Income taxes

The Company has incurred Canadian non-capital losses that can be carried forward to reduce taxes payable in Canada. The losses expire at various times through December 31, 2035. The Company has incurred US non-capital losses that can be carried forward to reduce taxes payable in the US. The losses expire at various times through December 31, 2035, commencing December 31, 2031. During 2018 and 2019, the Company recognized all temporary differences and non-capital losses and is expected to utilize those losses in 2020 and onward.

19 Financial instruments and fair values

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

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

Interest rate risk

The Company's cash is subject to interest rate risk, as it earns and pays interest at prevailing and fluctuating market rates. The Company has a fixed interest rate on its USD dollar GIC of 2.50% per annum and a fixed interest rate on its CAD dollar GIC of 2.00%. The Company has fixed rates on notes receivable from franchisees ranging from 5.25% to 6.00% per annum. The Company also has a variable interest rate of prime plus 1.00% per annum on one of its term loans and its line of credit. The Company has a fixed interest rate of 3.50% per annum on two of its term loans and a fixed interest rate of 2.99% per annum on one of its term loans. The Company's line of credit facility with a related party has a fixed interest rate of 10% per annum. The truck loans and leases have fixed interest rates ranging from 4.54% to 6.75% per annum. The Company's notes payable have fixed interest rates ranging from 0% to 5.25%. These financial instruments are subject to interest rate risk, as their fair values will fluctuate as a result of changes in market rates.

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

19 Financial instruments and fair values (continued)

Credit risk

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

Receivables related to franchising and licensing

The accounts and notes receivable from franchisees are exposed to credit risk from the possibility that franchisees may experience financial difficulty. The Company mitigates the risk of credit loss by limiting its exposure to any one franchisee. Credit assessments are conducted with respect to all new franchisees. In addition, the receivable balances are monitored on an ongoing basis. As of March 31, 2020, six (6) franchisees accounted for 83% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2019 - 6 franchisees accounted for 80%). For the three months ended March 31, 2020, three (3) franchisees accounted for 27% of the Company's revenues related to franchising and licensing (December 31, 2019 - 3 franchisees accounted for 23%). As of March 31, 2020, there were no accounts and notes receivable over 90 days old (December 31, 2019 – nil). Also refer to note 5 for details of notes receivable from franchisees.

Receivables related to corporate operations

The accounts receivable are exposed to credit risk from the possibility that customers may experience financial difficulty. At March 31, 2020, no customer accounted for more than 10% of the accounts receivable balance. For the three months ended March 31, 2020 and 2019, no customer accounted for more than 10% of the Company's revenues in this category. As of March 31, 2020, 10% of accounts receivable in this category was over 90 days old (December 31, 2019 – 6%). As at March 31, 2020, the Company recorded an allowance for credit losses from receivables of \$24,769 related to corporate operations (December 31, 2019 - \$2,292).

The Company has considered the probability of default by its franchisees and customers due to the impact of COVID-19 on businesses and cash flows. The Company has deferred royalty fee payments for April and May of 2020 for its franchisees. The maximum exposure to credit risk is the carrying amount of each class of financial assets. Collection of receivables remain a priority for the Company under the current situation.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

19 Financial instruments and fair values (continued)

Foreign exchange risk

The Company has revenues and costs that are denominated in USD dollars; this dependency on the USD dollar causes foreign exchange gains when the Canadian dollar depreciates versus the USD dollar. The Company has significant dollar value assets denominated in USD dollars which are revalued at the exchange rate at the date of the statement of financial position, which results in unrealized foreign exchange gains or losses. During the three months ended March 31, 2020, the Company recorded a foreign exchange gain of \$3,629,543 (March 31, 2019 – loss of \$232,131).

Exchange rates utilized (USD to CAD):

As at,	March 31, 2020	December 31, 2019
	\$	\$
Close rate	1.41	1.30

For the three months ended,	March 31, 2020	March 31, 2019
	\$	\$
Average rate	1.32	1.33

Liquidity risk

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

Based on overall cash generation capacity and overall financial position, 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 \$9,301,414 at March 31, 2020 (December 31, 2019 - \$8,155,826), are due to be settled within one year from the date of the statement of financial position. The Company has current assets of \$10,239,847 at March 31, 2020 (December 31, 2019 - \$12,588,097) including cash and cash equivalents of \$6,969,593 (December 31, 2019 - \$10,063,511).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

19 Financial instruments and fair values (continued)

Liquidity risk (continued)

Principal	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	2,378,719	170,000	–	–
Notes payable	118,788	292,547	160,021	–
Long-term debt	885,034	2,616,371	13,115,404	2,457,779
Contingent consideration	641,049	1,170,339	324,414	–
Lease liabilities	236,935	651,028	1,902,155	30,249

Interest	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Notes payable	5,408	10,559	2,678	–
Long-term debt	185,087	496,302	1,382,636	89,593
Lease liabilities	41,867	104,721	165,992	867

Total principal and interest	Less than 3 months \$	3 months to 1 year \$	2 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	2,378,719	170,000	–	–
Notes payable	124,196	303,106	162,699	–
Long-term debt	1,070,121	3,112,673	14,498,040	2,547,739
Contingent consideration	641,049	1,170,339	324,414	–
Lease liabilities	278,802	755,749	2,068,147	31,116

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 are made as at a specific point in time based on estimates using present value or other valuation techniques. The carrying value of the Company's notes payable, long-term debt and contingent consideration approximates fair value as the rates are similar to rates currently available to the Company.

These valuation techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimate of future cash flows, future expected loss experience and other factors. The carrying value of the Company's notes receivable from franchisees at March 31, 2020, amounted to \$370,169 (December 31, 2019 - \$276,575) with fair value estimated to be \$370,169 (December 31, 2019 - \$276,575), respectively.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

20 Capital management

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

To effectively manage its capital, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has sufficient liquidity to meet its operating and growth objectives. The Company expects its current resources and projected cash flows from continuing operations to support its growth objectives.

The Company has credit facilities with a banking institution which provides an operating line of credit and a non-revolving term loan. The Company's bank credit facilities contain financial covenants that require the Company to maintain certain financial ratios and meet certain financial thresholds. Refer to note 12 for the financial covenants.

21 Segment reporting

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

21 Segment reporting (continued)

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

	Franchising and licensing	Corporate locations	Corporate overhead	Total
	March 31, 2020	March 31, 2020	March 31, 2020	March 31, 2020
	\$	\$	\$	\$
ASSETS				
Current assets				
Cash and cash equivalents	1,912,783	752,476	4,304,334	6,969,593
Cash attributable to the Ad Fund	116,676	-	-	116,676
Trade and other receivables	172,072	2,322,880	59,308	2,554,260
Prepaid expenses	68,278	344,291	113,954	526,523
Notes receivable from franchisees	72,795	-	-	72,795
Total current assets	2,342,604	3,419,647	4,477,596	10,239,847
Non-current assets				
Notes receivable from franchisees	297,374	-	-	297,374
Tangible assets	-	14,564,124	284,980	14,849,104
Intangible assets	85,120	16,558,520	213,104	16,856,744
Goodwill	-	17,470,002	-	17,470,002
Deferred tax asset	-	-	1,479,322	1,479,322
Total assets	2,725,098	52,012,293	6,455,002	61,192,393
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	104,770	1,968,863	475,085	2,548,719
Deferred revenue	130,638	-	-	130,638
Income taxes payable	9,967	-	-	9,967
Current portion of long-term debt	-	3,501,404	-	3,501,404
Notes payable	-	411,335	-	411,335
Lease liabilities	-	825,691	62,272	887,963
Contingent consideration	-	1,811,388	-	1,811,388
Total current liabilities	245,375	8,518,681	537,357	9,301,414
Non-current liabilities				
Long-term debt	-	15,573,550	-	15,573,550
Deferred revenue	347,679	-	-	347,679
Notes payable	-	160,021	-	160,021
Lease liabilities	-	1,734,638	197,766	1,932,404
Contingent consideration	-	324,414	-	324,414
Total liabilities	593,054	26,311,304	735,123	27,639,482

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

21 Segment reporting (continued)

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

21 Segment reporting (continued)

Geographic information

	March 31, 2020	December 31, 2019
Canada	\$	\$
Tangible assets	284,980	306,429
Intangible assets	213,104	184,408
United States		
Notes receivable from franchisees	370,169	276,575
Tangible assets	14,564,124	12,029,161
Intangible assets	16,558,520	12,806,507
Goodwill	17,470,002	14,102,815
Total		
Notes receivable from franchisees	370,169	276,575
Tangible assets	14,849,104	12,335,590
Intangible assets	16,771,624	12,990,916
Goodwill	17,470,002	14,102,815

Revenue

All revenues were attributed to the United States.

Net income (loss) by operating segment

Total net income (loss) by reportable operating segment is as follows:

	For the three months ended March 31, 2020			Total \$
	Franchising and licensing \$	Corporate locations \$	Corporate overhead \$	
Revenue	590,292	6,003,287	–	6,593,579
Direct costs	–	(4,220,345)	–	(4,220,345)
Selling, general and administrative	(396,527)	(300,006)	(317,377)	(1,013,910)
Depreciation – tangible assets	–	(820,002)	(24,677)	(844,679)
Operating income (loss)	193,765	662,934	(342,054)	514,645
Amortization – intangible assets	(1,320)	(502,141)	(9,876)	(513,337)
Foreign exchange gain	–	–	3,629,543	3,629,543
Transaction recovery	–	187,337	–	187,337
Interest expense	–	(195,115)	–	(195,115)
Interest income	–	–	34,115	34,115
Income tax recovery	–	6,087	–	6,087
Net income	192,445	159,102	3,311,728	3,663,275

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

March 31, 2020

(expressed in Canadian dollars)

21 Segment reporting (continued)

	For the three months ended March 31, 2019			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	695,344	4,507,462	–	5,202,806
Direct costs	–	(2,784,275)	–	(2,784,275)
Selling, general and administrative	(311,471)	(137,080)	(350,239)	(798,790)
Depreciation – tangible assets	–	(547,636)	(39,800)	(587,436)
Operating income (loss)	383,873	1,038,471	(390,039)	1,032,305
Amortization – intangible assets	(4,568)	(243,881)	–	(248,449)
Foreign exchange loss	–	–	(232,131)	(232,131)
Other income	–	131,254	–	131,254
Interest expense	–	(122,295)	–	(122,295)
Interest income	1,043	–	7,250	8,293
Income tax (expense) recovery	(10,966)	19,301	(32,000)	(23,665)
Net income (loss)	369,382	822,850	(646,920)	545,312

22 Related party balances and transactions

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. There is an accounts receivable balance of \$3,266 due from this franchise at March 31, 2020 (December 31, 2019 - \$nil). During the three months ended March 31, 2020, the Company earned royalties, franchise and service fees of \$46,724 (March 31, 2019 - \$42,912) from this franchise.

23 Subsequent events

In April 2020, the Company applied for and was approved for the Paycheck Protection Program in the United States in response to the global pandemic of COVID-19. The Company received US\$1.0 million under the program of which a portion or up to the full amount of the loan may be forgiven if the proceeds are used to cover payroll, rent and other utility costs. Any portion of the loan that is not forgiven will be repayable over a two-year term at an interest rate of 1.00% per annum with payments deferred for the first six months.

In April 2020, the Company applied for the Canada Emergency Wage Subsidy and received funding for the first claim period from the Canadian government in May 2020 in the amount of CAD\$50,000.

The impact and duration of the COVID-19 pandemic is unknown at this time and as a result, it is not possible to reliably estimate the impact on the Company's financial position and results for future periods.