

RediShred Capital Corp.

Consolidated Interim Financial Statements
June 30, 2020 and 2019
(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

August 25, 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 June 30, 2020.

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at June 30, 2020 and December 31, 2019

(expressed in Canadian dollars)

	2020 \$	2019 \$
Assets		
Current assets		
Cash and cash equivalents	8,816,407	10,063,511
Cash attributable to the Advertising Fund (note 3)	99,620	155,162
Trade receivables (note 4)	2,164,825	1,857,158
Prepaid expenses	517,456	388,223
Notes receivable from franchisees (note 5)	73,414	124,043
Total current assets	11,671,722	12,588,097
Non-current assets		
Notes receivable from franchisees (note 5)	292,827	276,575
Tangible assets (note 6)	13,992,808	12,335,590
Intangible assets (note 7)	15,744,845	12,990,916
Goodwill (note 8)	16,850,498	14,102,815
Deferred tax asset (note 18)	1,478,634	1,475,684
Total non-current assets	48,359,612	41,181,580
Total assets	60,031,334	53,769,677
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,572,633	1,814,056
Deferred revenue	178,912	130,638
Income taxes payable	9,614	7,069
Current portion of long-term debt (note 11)	3,461,450	2,875,391
Notes payable (note 9)	437,053	391,298
Lease liability (note 12)	908,032	805,920
Contingent consideration (note 10)	1,747,154	2,131,454
Total current liabilities	8,314,848	8,155,826
Non-current liabilities		
Long-term debt (note 11)	15,947,557	13,069,238
Deferred revenue	238,271	354,538
Notes payable (note 9)	106,331	221,605
Lease liability (note 12)	2,142,004	1,906,570
Contingent consideration (note 10)	253,296	161,603
Total non-current liabilities	18,687,459	15,713,554
Total liabilities	27,002,307	23,869,380
Shareholders' equity		
Capital stock (note 13)	35,610,113	35,543,272
Contributed surplus	1,138,043	1,056,504
Accumulated foreign currency translation loss	(741,534)	(666,286)
Deficit	(2,977,595)	(6,033,193)
Total liabilities and shareholders' equity	60,031,334	53,769,677

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 and six months ended June 30, 2020 and 2019

(expressed in Canadian dollars)

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2020	2019	2020	2019
	\$	\$	\$	\$
Revenue (note 14)	6,034,343	5,569,843	12,627,922	10,772,649
Corporate operating locations expenses (note 15)	(3,787,944)	(3,129,580)	(8,008,289)	(5,913,855)
Selling, general and administrative expenses (note 16)	(681,796)	(749,288)	(1,695,706)	(1,548,078)
Income before depreciation	1,564,603	1,690,975	2,923,927	3,310,716
Depreciation – tangible assets	(992,576)	(656,563)	(1,837,256)	(1,243,999)
Operating income	572,027	1,034,412	1,086,671	2,066,717
Interest expense	(168,629)	(149,820)	(363,744)	(272,115)
Interest income	7,313	4,618	41,428	12,911
Income before the following	410,711	889,210	764,355	1,807,513
Other income (note 17)	1,262,322	–	1,262,322	–
Amortization – intangible assets	(631,074)	(313,302)	(1,144,411)	(561,751)
(Loss) gain on sale of assets	–	(38,237)	–	93,017
Transaction recovery	7,096	–	194,433	–
Income before foreign exchange and income taxes	1,049,055	537,671	1,076,699	1,338,779
Foreign exchange (loss) gain	(1,656,970)	(507,927)	1,972,573	(740,058)
Income tax recovery (expense) (note 18)	239	(110,323)	6,326	(133,988)
Net (loss) income for the period	(607,676)	(80,579)	3,055,598	464,733
Foreign currency translation loss	(1,952)	(29,803)	(75,248)	(65,593)
Comprehensive (loss) income for the period	(609,628)	(110,382)	2,980,350	399,140
Net (loss) income per share				
Basic	(0.008)	(0.001)	0.039	0.007
Diluted	(0.008)	(0.001)	0.039	0.007
Weighted average number of common shares outstanding – basic	78,611,594	66,561,105	78,556,406	66,559,675
Weighted average number of common shares outstanding – diluted	78,625,609	68,580,341	79,281,185	68,364,872

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

RediShred Capital Corp.

Consolidated Statements of Changes in Equity

For the six months ended June 30, 2020 and 2019

(expressed in Canadian dollars)

	Capital stock and warrants \$ (note 13)	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	–	–	–	464,733	464,733
Foreign currency translation loss	–	–	(65,593)	–	<u>(65,593)</u>
Comprehensive income for the period	–	–	–	–	399,140
Issue of shares (note 13)	–	1,507	–	–	1,507
Stock-based compensation (note 13)	–	99,902	–	–	99,902
Balance – June 30, 2019	<u>24,961,090</u>	<u>992,166</u>	<u>(715,486)</u>	<u>(4,789,686)</u>	<u>20,448,084</u>
Balance – January 1, 2020	35,543,272	1,056,504	(666,286)	(6,033,193)	29,900,297
Net income for the period	–	–	–	3,055,598	3,055,598
Foreign currency translation loss	–	–	(75,248)	–	<u>(75,248)</u>
Comprehensive income for the period	–	–	–	–	2,980,350
Issue of shares (note 13)	66,841	(21,841)	–	–	45,000
Stock-based compensation (note 13)	–	103,380	–	–	103,380
Balance – June 30, 2020	<u>35,610,113</u>	<u>1,138,043</u>	<u>(741,534)</u>	<u>(2,977,595)</u>	<u>33,029,027</u>

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

RediShred Capital Corp.

Consolidated Statements of Cash Flows

For the three and six months ended June 30, 2020 and 2019

(expressed in Canadian dollars)

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2020	2019	2020	2019
	\$	\$	\$	\$
Cash provided by (used in)				
Operating activities				
Net income (loss) for the period	(607,915)	(80,579)	3,055,599	463,733
Items not affecting cash				
Amortization of tangible and intangible assets	1,623,650	969,865	2,981,666	1,805,750
Stock-based compensation	40,745	59,881	103,380	99,902
Unrealized foreign currency loss (gain)	1,740,857	307,641	(1,695,021)	549,806
(Loss) gain on sale of assets	–	(38,237)	–	93,017
Transaction recovery	(7,096)	–	(194,433)	–
Income tax recovery (expense)	–	54,911	–	87,324
	<u>2,790,242</u>	<u>1,273,482</u>	<u>4,251,191</u>	<u>3,099,532</u>
Net change in non-cash working capital balances				
Decrease (increase) in trade receivables	483,397	251,356	368,226	(227,035)
(Increase) in prepaid expenses	(6,904)	(50,073)	(113,044)	(189,923)
(Decrease) in accounts payable and accrued liabilities	(1,100,846)	(133,021)	(616,168)	(200,994)
(Decrease) in income taxes payable	–	–	–	(120,052)
(Decrease) in deferred revenue	(46,118)	(57,758)	(91,427)	(115,516)
	<u>2,120,008</u>	<u>1,283,986</u>	<u>3,798,779</u>	<u>2,246,012</u>
Financing activities				
Borrowings from long-term debt	515,165	6,793,933	4,184,387	7,377,877
Repayment of long-term debt	(2,732)	(615,004)	(855,569)	(922,481)
Issuance of capital stock (net of fees)	66,841	–	66,841	1,350
Payment of contingent considerations	(56,880)	(253,686)	(971,048)	(328,375)
Issuance of notes receivable	(7,480)	–	(7,480)	(13,337)
Repayment of notes receivable	564	39,356	61,180	47,223
Repayment of notes payable	(4,377)	(108,157)	(98,399)	(208,258)
Repayment of lease liabilities	(79,257)	(144,457)	(307,851)	(280,451)
	<u>431,844</u>	<u>5,711,985</u>	<u>2,072,061</u>	<u>5,673,548</u>
Investing activities				
Acquisitions	–	–	(5,474,280)	(8,760,643)
Cash held by advertising fund	14,853	(47,016)	63,317	(24,815)
Purchase of tangible and intangible assets	(248,975)	(916,627)	(1,542,286)	(1,632,984)
Proceeds from sale of assets	–	131,000	–	131,000
	<u>(234,122)</u>	<u>(832,643)</u>	<u>(6,953,249)</u>	<u>(10,287,442)</u>
Effect of foreign exchange rate changes on cash	<u>(470,916)</u>	<u>(63,983)</u>	<u>(164,6934)</u>	<u>(253,493)</u>
Net change in cash for the period	<u>1,846,814</u>	<u>6,099,345</u>	<u>(1,247,104)</u>	<u>(2,621,375)</u>
Cash – Beginning of period	<u>6,969,593</u>	<u>109,949</u>	<u>10,063,511</u>	<u>8,830,669</u>
Cash – End of period	<u>8,816,407</u>	<u>6,209,294</u>	<u>8,816,407</u>	<u>6,209,294</u>

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 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 June 30, 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 June 30, 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 and second quarter of 2020, the global spread of the COVID-19 virus has led to significant disruptions to businesses worldwide, resulting in an economic downturn. In many countries, including Canada and the United States, measures such as travel bans, quarantines, social distancing and closures of non-essential services have been taken to contain the spread of the virus. Governments have responded with monetary and fiscal interventions in an attempt to stabilize economic conditions. The Company has considered the potential negative impacts and cash flow difficulties of the virus on its franchisees, customers, suppliers and lenders. The impacts and length of time of the COVID-19 pandemic and its impacts are currently unknown. The Company has used the best information available as at June 30, 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 and six months ended June 30, 2020 were authorized for issue in accordance with a resolution of the Directors on August 25, 2020.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 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 the ad fund contributions for the months of May and June 2020. The Company also reduced certain advertising program costs.

The Ad Fund related contributions and expenses as well as cash balance as at June 30, 2020 and December 31, 2019 are as follows:

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2020	2019	2020	2019
	\$	\$	\$	\$
Ad Fund contributions	18,913	73,447	66,505	143,804
Ad Fund expenses	5,740	(42,494)	(71,307)	(155,441)
Ad Fund surplus (deficit)	24,653	30,953	(4,802)	(11,637)

As at,	June 30, 2020	December 31, 2019
	\$	\$
Cash attributable to the Ad Fund	99,620	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. The net trade and other receivables as at June 30, 2020 and December 31, 2019 are as follows:

	June 30, 2020	December 31, 2019
	\$	\$
Trade receivables – corporate locations	1,793,040	1,649,135
Trade receivables – franchising & licensing	359,828	154,795
Total trade receivables	2,152,868	1,803,930
Other receivables	37,477	55,520
Less: Allowance for doubtful accounts	(25,520)	(2,292)
Trade receivables – net	2,164,825	1,857,158

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 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. In response to COVID-19, the Company deferred the monthly blended payments of principal and interest for the months of April to June 2020. The accrued interest and principal payments were re-amortized over the remaining terms. The notes receivable bear interest rates ranging from 5.25% to 6.00% per annum with monthly blended payments of principal and interest ranging from USD\$1,007 to USD\$3,735. The payments on the notes commenced between dates ranging from April, 2019 to December, 2019 and mature between dates ranging from June, 2021 to June, 2025.

The notes receivable as at June 30, 2020 and December 31, 2019 are as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
	\$	\$
Opening balance	400,618	89,946
Add: new notes	7,480	415,616
Less: repayments	<u>(41,857)</u>	<u>(104,944)</u>
Closing balance	366,241	400,618
Less: current portion	<u>(73,414)</u>	<u>(124,043)</u>
Long-term portion	<u>292,827</u>	<u>276,575</u>

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2020

(expressed in Canadian dollars)

6 Tangible assets

	June 30, 2020			December 31, 2019		
	Cost	Accumulated depreciation	Net carrying value	Cost	Accumulated depreciation	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer equipment	344,950	(295,045)	49,906	313,779	(272,186)	41,593
Furniture & fixtures	262,869	(184,867)	78,002	255,375	(153,721)	101,654
Bins & shredding containers	2,135,505	(985,194)	1,150,311	1,805,818	(770,287)	1,035,531
Shredding vehicles - chassis	4,660,042	(1,712,427)	2,947,615	3,888,079	(1,286,009)	2,602,070
Shredding vehicles - box	10,048,897	(3,807,394)	6,241,503	8,294,950	(2,969,279)	5,325,671
Vehicles	204,574	(169,638)	34,936	183,062	(145,957)	37,105
Baling equipment	509,456	(66,733)	442,723	486,530	(34,208)	452,322
Right of use assets	3,932,182	(884,370)	3,047,812	3,253,706	(514,062)	2,739,644
Total tangible assets	22,098,475	(8,105,667)	13,992,808	18,481,299	(6,145,709)	12,335,590

	December 31, 2019				June 30 2020	
	Net carrying value	Additions	Acquisitions	Depreciation	Foreign exchange	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer equipment	41,593	24,689	-	(17,415)	1,039	49,906
Furniture & fixtures	101,654	1,992	-	(28,900)	3,255	78,001
Bins & shredding containers	1,035,531	94,471	149,745	(178,230)	48,795	1,150,312
Shredding vehicles - chassis	2,602,070	336,158	255,360	(368,574)	122,600	2,947,614
Shredding vehicles - box	5,325,671	781,360	595,840	(712,250)	250,883	6,241,504
Vehicles	37,105	300	13,300	(17,377)	1,609	34,937
Baling equipment	452,322	-	-	(30,913)	21,313	442,722
Right of use assets	2,739,644	-	119,322	(483,595)	672,441	3,047,812
Total tangible assets	12,335,590	1,238,970	1,133,567	(1,837,254)	1,121,935	13,992,808

	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 June 30, 2020 and December 31, 2019.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2020

(expressed in Canadian dollars)

7 Intangible assets

	June 30, 2020			December 31, 2019		
	Cost	Accumulated amortization	Net carrying value	Cost	Accumulated amortization	Net carrying value
Computer software	\$ 417,129	\$ (78,038)	\$ 339,091	\$ 239,690	\$ (41,884)	\$ 197,806
Re-acquired franchise rights	772,344	(308,717)	463,627	553,621	(104,131)	449,490
Customer relationships	19,022,760	(4,080,633)	14,942,127	15,395,138	(3,051,518)	12,343,620
Total intangible assets	20,212,232	(4,467,388)	15,744,845	16,188,449	(3,197,533)	12,990,916

	January 1, 2020				June 30, 2020	
	Net carrying value	Additions	Acquisitions	Amortization	Foreign exchange	Net carrying value
Computer software	\$ 197,806	\$ 175,266	\$ -	\$ (34,719)	\$ 738	\$ 339,091
Re-acquired franchise rights	449,490	-	188,386	(201,148)	26,899	463,627
Customer relationships	12,343,620	-	2,838,179	(908,544)	668,872	14,942,127
Total intangible assets	12,990,916	175,266	3,026,565	(1,144,411)	696,509	15,744,845

	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 June 30, 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.

8 Goodwill

The goodwill as at June 30, 2020 and December 31, 2019 is as follows:

	June 30, 2020	December 31, 2019
	\$	\$
Opening balance	14,102,815	4,812,448
Acquisition	2,037,201	9,663,762
Foreign currency translation	710,482	(373,395)
Closing balance	16,850,498	14,102,815

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2020

(expressed in Canadian dollars)

9 Notes payable

In response to COVID-19, the Company negotiated the deferral of all its monthly payments for a period of three months from April to June 2020. The accrued interest and principal payments were re-amortized over the remaining terms. As at June 30, 2020, notes payable is comprised of:

Origination	Initial amount	Payment ⁽¹⁾	Interest per annum	Current portion	Long-term portion	Maturity
October 1, 2018	USD\$550,000	USD\$19,753	5.00%	CAD\$308,623 USD\$226,929	CAD\$106,331 USD\$78,194	October 5, 2021
January 31, 2019	USD\$75,000	USD\$4,534	1.25%	CAD\$42,810 USD\$31,478	– –	January 31, 2021
January 31, 2019	USD\$150,000	USD\$9,069	1.25%	CAD\$85,620 USD\$62,956	– –	January 31, 2021
Total Notes Payable				CAD\$437,053 USD\$321,363	CAD\$106,331 USD\$78,194	

(1) Blended monthly payments of principal and interest.

10 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. In response to COVID-19, some of the contingent consideration liabilities were deferred by one quarter to the end of the term. During the six months ended June 30, 2020, the Company recorded a transaction recovery of \$194,433 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 June 30, 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\$15,504 USD\$11,400	CAD\$3,876 USD\$2,850	March 31, 2021
Safe Shredding	October 1, 2018	USD\$500,000	CAD\$226,668 USD\$166,668	CAD\$122,819 USD\$90,308	December 31, 2021
Chicago	October 1, 2019	USD\$1,223,362	CAD\$905,886 USD\$666,093	– –	December 31, 2020
Connecticut	March 1, 2020	USD\$615,759	CAD\$599,095 USD\$440,551	CAD\$126,601 USD\$93,089	December 31, 2021
Total contingent consideration			CAD\$1,747,154 USD\$1,284,712	CAD\$253,296 USD\$186,247	

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2020

(expressed in Canadian dollars)

11 Long-term debt

As at June 30, 2020 and December 31, 2019 long-term debt is comprised of:

	June 30, 2020	December 31, 2019
	\$	\$
Bank facilities	15,217,987	13,123,568
Less: transaction costs	(263,032)	(249,957)
Net bank facilities (i)	14,954,955	12,873,611
Truck loans (ii)	3,979,536	3,071,018
Government loans (iii)	474,516	—
Total long-term debt	19,409,007	15,944,629
Less: current portion	(3,461,450)	(2,875,391)
Total long-term debt	15,947,557	13,069,238

(i) Bank facilities

As of June 30, 2020, the Company has the following secured senior credit facilities:

1. An operating line of credit of CAD\$1 million;
2. A non-revolving term loan in the amount of CAD\$3 million; and
3. A non-revolving term loan in the amount of USD\$12.5 million (advances can be taken in either USD or CAD equivalent, at the Company's discretion).

As of June 30, 2020, the Company has borrowed the following amounts on the non-revolving term loans:

Date of Advance	Initial amount	Interest per annum	Amortization period	June 30, 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 Company has not drawn on its operating line of credit as of June 30, 2020.

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

As of June 30, 2020, the Company has CAD\$2.0 million available on its senior credit facilities.

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.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2020

(expressed in Canadian dollars)

11 Long-term debt (continued)

(i) Bank facilities (continued)

The bank credit facilities as at June 30, 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.

In response to COVID-19, the Company's financial institution waived the financial covenants required for the first and second quarters of 2020. As at June 30, 2020, the Company was not in compliance with two of its three banking covenants. The senior funded debt to EBITDA ratio was 3.26, above the maximum of 3.00 and the total funded debt to EBITDA ratio was 3.67, above the maximum of 3.50. Attainment of the covenants were impacted by the COVID-19 pandemic's impact to EBITDA and the permitted deferral of the Company's debt repayments. As at June 30, 2020, the Company had the cash reserves on hand to pay down its debt obligations in order to maintain the financial ratios as specified in the covenants; the Company elected not to utilize the cash as the financial covenants were waived by the financial institution.

(ii) Truck loans

The Company has established a USD\$1.7 million line of credit for the purchase of shredding vehicles with a tier one 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 June 30, 2020, the Company has utilized the entire line of credit (December 31, 2019 – USD\$1,298,789), which is included in the truck loans balance. The Company has no remaining balance available for use on the line of credit as of June 30, 2020 (December 31, 2019 – USD\$401,211).

As at June 30, 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	3,979,536	4,933,147	4.54% - 6.75%	June 23, 2015 – March 2, 2020	September 23, 2020 – June 2, 2025

In response to the impacts of COVID-19, the Company obtained a three-month deferral for 87% of its truck loan payments. The three-month deferral amounts were added to the end of the truck loan terms.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2020

(expressed in Canadian dollars)

11 Long-term debt (continued)

(iii) Government loans

In April 2020, the Company qualified for the Paycheck Protection Program (“PPP”) in the United States in response to the global COVID-19 pandemic. The Company received US\$1.1 million (CAD\$1.5 million) under the program. Up to 100% of the loan amount may be forgiven if the proceeds are used to cover payroll, rent and other utility costs at pre-COVID-19 levels. As of June 30, 2020, the Company has estimated the amount that met the terms for forgiveness of the loan and recorded other income of \$1,070,782 as a government grant. The remaining portion of \$474,516 has been recorded as a loan repayable over a two-year term at an interest rate of 1.00% per annum with payments deferred for the first six months.

(iv) 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 June 30, 2020, the facility has not been drawn upon (December 31, 2019 - \$nil).

12 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.

<u>Lease liability</u>	<u>Number of ROU assets leased</u>	<u>Range of remaining term</u>	<u>Range of interest rates</u>	<u>Lease balance as at June 30, 2020</u>
				\$
Office and warehouse building	11	September 2020 to August 2025	6%	2,338,201
Shredding vehicles	7	August 2021 to October 2022	5.95% to 6.50%	711,835

The total lease payments for the three and six months ended June 30, 2020 were \$207,250 and \$433,008 (June 30, 2019 - \$213,069 and \$406,986).

13 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

June 30, 2020

(expressed in Canadian dollars)

13 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 June 30, 2020	78,800,605	35,010,105	1,823,400	600,008	80,524,005	35,610,113
Balance December 31, 2019	78,500,605	34,943,264	1,823,400	600,008	80,324,005	35,543,272

c) Weighted average number of common shares

The basic weighted average number of common shares outstanding for the six months ended June 30, 2020, was 78,556,406 (December 31, 2019 – 72,449,429). The diluted weighted average number of common shares outstanding for the six months ended June 30, 2020, was 79,281,185 (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 six months ended June 30, 2020 (3,750 – six months ended June 30, 2019). There are 1,823,400 warrants outstanding as of June 30, 2020.

e) Stock options

The following table summarizes the movements in the Company's stock options during the six months ended June 30, 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	252,000	0.68	347,150	0.76
Exercised	(300,000)	0.15	(72,500)	0.37
Expired	(5,000)	0.10	(10,000)	0.13
Outstanding – closing	<u>1,997,150</u>	0.60	<u>2,050,150</u>	0.52

For the six months ended June 30, 2020, the net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$103,380 (for the six months ended June 30, 2019 – \$99,902).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2020

(expressed in Canadian dollars)

14 Revenue

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

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2020	2019	2020	2019
	\$	\$	\$	\$
Royalties and license fees	436,392	605,490	933,783	1,172,719
Franchise fees	46,118	57,758	91,427	115,516
Ad Fund contributions (note 3)	18,913	73,447	66,505	143,804
Shredding services	4,365,325	3,888,624	9,549,756	7,406,754
Sale of paper products	816,452	676,704	1,347,940	1,539,641
Electronic waste services	351,143	267,820	638,511	394,215
Total revenue	6,034,343	5,569,843	12,627,922	10,772,649

15 Corporate location expenses

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

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2020	2019	2020	2019
	\$	\$	\$	\$
Shredding vehicle and related expenses	912,729	698,261	1,806,621	1,282,760
Acquisition costs	38,003	-	97,007	-
Employee wages expense	1,899,080	1,680,790	4,088,034	3,180,642
Employee benefit expense	456,846	310,413	882,420	605,511
Office and administration expense	481,286	440,116	1,134,207	844,942
Total corporate operating expenses	3,787,944	3,129,580	8,008,289	5,913,855

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2020

(expressed in Canadian dollars)

16 Selling, general and administrative expenses

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

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2020	2019	2020	2019
	\$	\$	\$	\$
Employee wages and benefits	352,480	381,379	816,454	750,709
Share-based compensation	40,745	59,881	103,380	99,902
Acquisition costs	4,528	1,397	90,558	32,745
Professional fees	79,582	68,210	142,487	119,972
Technology	113,204	79,154	205,590	158,804
Ad Fund expenses (note 3)	(5,740)	42,494	71,307	155,441
Other expenses	96,997	116,773	265,930	230,505
Total selling, general and administrative expenses	681,796	749,288	1,695,706	1,548,078

Compensation of key management

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

	<i>For the 3 months ended June 30</i>		<i>For the 6 months ended June 30</i>	
	2020	2019	2020	2019
	\$	\$	\$	\$
Wages and benefits	160,747	201,391	377,731	439,732
Share-based compensation	18,225	53,179	73,266	85,057
Total	178,972	254,570	450,997	524,789

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

17 Other income

In April 2020, the Company applied for and was approved for the Paycheck Protection Program ("PPP") in the United States in response to the global COVID-19 pandemic. The Company received US\$1.1 million (CAD\$1.5 million) under the program of which up to all of the loan may be forgiven if the proceeds are used to cover payroll, rent and other utility costs at pre-COVID19 levels. Up to 100% of the loan amount may be forgiven if the proceeds are used to cover payroll, rent and other utility costs at pre-COVID-19 levels. As of June 30, 2020, the Company has estimated the amount that met the terms for forgiveness of the loan and recorded other income of \$1,070,782 as a government grant.

The Company also applied for the Canada Emergency Wage Subsidy ("CEWS") and received funding from the Canadian government in the amount of CAD\$192,000 during the three months ended June 30, 2020.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2020

(expressed in Canadian dollars)

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 1.25% to 5.00%. These financial instruments are subject to interest rate risk, as their fair values will fluctuate as a result of changes in market rates.

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

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.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2020

(expressed in Canadian dollars)

19 Financial instruments and fair values (continued)

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 June 30, 2020, six (6) franchisees accounted for 69% of the accounts receivable and notes receivable balance related to franchising and licensing (December 31, 2019 - 6 franchises accounted for 80%). For the six months ended June 30, 2020, three (3) franchisees accounted for 26% of the Company's revenues related to franchising and licensing (December 31, 2019 - 3 franchisees accounted for 23%). As of June 30, 2020, there was \$112,745 in accounts and notes receivable over 90 days old (December 31, 2019 – nil). To support franchisees during COVID-19, the Company has deferred royalty fee payments related to royalties earned in March and April of 2020 for its franchisees. 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 June 30, 2020, no customer accounted for more than 10% of the accounts receivable balance. For the six months ended June 30, 2020 and 2019, no customer accounted for more than 10% of the Company's revenues in this category. As of June 30, 2020, 9% of accounts receivable in this category was over 90 days old (December 31, 2019 – 6%). As at June 30, 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 maximum exposure to credit risk is the carrying amount of each class of financial assets. Collection of receivables remain a priority for the Company under the current situation and collectability remains highly probable.

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 six months ended June 30, 2020, the Company recorded a foreign exchange gain of \$1,972,573 (June 30, 2019 – loss of \$740,058).

Exchange rates utilized (USD to CAD):

As at,	June 30, 2020	December 31, 2019
	\$	\$
Close rate	1.36	1.30
For the six months ended,	June 30, 2020	June 30, 2019
	\$	\$
Average rate	1.37	1.33

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2020

(expressed in Canadian dollars)

19 Financial instruments and fair values (continued)

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 \$8,265,052 at June 30, 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 \$11,671,722 at June 30, 2020 (December 31, 2019 - \$12,588,097) including cash and cash equivalents of \$8,816,407 (December 31, 2019 - \$10,063,511).

Principal	Less than 3 months \$	3 months to 1 year \$	1 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	1,392,633	180,000	–	–
Notes payable	130,643	306,410	106,331	–
Long-term debt	874,899	2,586,550	13,488,763	2,458,794
Contingent consideration	618,317	1,128,837	253,296	–
Lease liabilities	221,227	686,805	2,132,043	9,961

Interest	Less than 3 months \$	3 months to 1 year \$	1 – 5 years \$	Over 5 years \$
Notes payable	5,218	9,059	1,110	–
Long-term debt	182,534	491,242	1,372,745	89,593
Lease liabilities	41,350	109,686	176,296	–

Total principal and interest	Less than 3 months \$	3 months to 1 year \$	1 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	1,392,633	180,000	–	–
Notes payable	135,861	315,469	107,441	–
Long-term debt	1,057,433	3,077,792	14,861,508	2,548,387
Contingent consideration	618,317	1,128,837	253,296	–
Lease liabilities	262,577	795,491	2,308,339	9,961

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2020

(expressed in Canadian dollars)

19 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 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 June 30, 2020, amounted to \$285,077 (December 31, 2019 - \$276,575) with fair value estimated to be \$370,169 (December 31, 2019 - \$276,575), respectively.

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 11 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

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21 Segment reporting (continued)

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

	Franchising and licensing	Corporate locations	Corporate overhead	Total
	June 30, 2020	June 30, 2020	June 30, 2020	June 30, 2020
	\$	\$	\$	\$
ASSETS				
Current assets				
Cash and cash equivalents	1,691,638	3,446,928	3,677,841	8,816,407
Cash attributable to the Ad Fund	99,620	-	-	99,620
Trade and other receivables	359,828	1,767,520	37,477	2,164,825
Prepaid expenses	56,894	376,030	84,532	517,456
Notes receivable from franchisees	73,414	-	-	73,414
Total current assets	2,281,394	5,590,478	3,799,850	11,671,722
Non-current assets				
Notes receivable from franchisees	292,827	-	-	292,827
Tangible assets	-	13,732,066	260,742	13,992,808
Intangible assets	112,618	15,406,242	225,985	15,744,845
Goodwill	-	16,850,498	-	16,850,498
Deferred tax asset	-	-	1,478,634	1,478,634
Total assets	2,686,839	51,579,284	5,765,211	60,031,334
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	96,619	1,043,940	432,074	1,572,633
Deferred revenue	178,912	-	-	178,912
Income taxes payable	9,614	-	-	9,614
Current portion of long-term debt	-	3,461,450	-	3,461,450
Notes payable	-	437,053	-	437,053
Lease liabilities	-	845,760	62,272	908,032
Contingent consideration	-	1,747,154	-	1,747,154
Total current liabilities	285,145	7,535,357	494,346	8,314,848
Non-current liabilities				
Long-term debt	-	15,947,557	-	15,947,557
Deferred revenue	238,271	-	-	238,271
Notes payable	-	106,331	-	106,331
Lease liabilities	-	1,944,238	197,766	2,142,004
Contingent consideration	-	253,296	-	253,296
Total liabilities	523,416	25,786,779	692,112	27,002,307

RediShred Capital Corp.

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(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	-	-	1,475,684	1,475,684
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

June 30, 2020

(expressed in Canadian dollars)

21 Segment reporting (continued)

Geographic information

	June 30, 2020	December 31, 2019
Canada	\$	\$
Tangible assets	260,742	306,429
Intangible assets	225,986	184,408
United States		
Notes receivable from franchisees	292,827	276,575
Tangible assets	13,732,066	12,029,161
Intangible assets	15,518,859	12,806,508
Goodwill	16,850,498	14,102,815
Total		
Notes receivable from franchisees	292,827	276,575
Tangible assets	13,992,808	12,335,590
Intangible assets	15,744,845	12,990,916
Goodwill	16,850,498	14,102,815

Revenue

All revenues were attributed to the United States.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2020

(expressed in Canadian dollars)

21 Segment reporting (continued)

Net income (loss) by operating segment

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

	For the three months ended June 30, 2020			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	501,423	5,532,920	–	6,034,343
Direct costs	–	(3,787,944)	–	(3,787,944)
Selling, general and administrative	(341,485)	(300,006)	(40,305)	(681,796)
Depreciation – tangible assets	–	(968,338)	(24,238)	(992,576)
Operating income (loss)	159,938	476,632	(64,543)	572,027
Other income	–	1,070,782	191,540	1,262,322
Amortization – intangible assets	(14,521)	(606,181)	(10,372)	(631,074)
Foreign exchange loss	–	–	(1,656,970)	(1,656,970)
Transaction recovery	–	7,096	–	7,096
Interest expense	–	(168,629)	–	(168,629)
Interest income	–	–	7,313	7,313
Income tax recovery	–	239	–	239
Net income (loss)	145,417	779,939	(1,533,032)	(607,676)

	For the three months ended June 30, 2019			
	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	736,695	4,833,148	–	5,569,843
Direct costs	–	(3,129,580)	–	(3,129,580)
Selling, general and administrative	(337,088)	(137,080)	(275,120)	(749,288)
Depreciation – tangible assets	–	(613,032)	(43,531)	(656,563)
Operating income (loss)	399,607	953,456	(318,651)	1,034,412
Amortization – intangible assets	(4,673)	(308,629)	–	(313,302)
Foreign exchange loss	–	–	(507,927)	(507,927)
Loss on sale of assets	–	(38,237)	–	(38,237)
Interest expense	–	(149,820)	–	(149,820)
Interest income	4,618	–	–	4,618
Income tax expense	(20,708)	(34,298)	(55,317)	(110,323)
Net income (loss)	378,844	422,472	(881,895)	(80,579)

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

June 30, 2020

(expressed in Canadian dollars)

21 Segment reporting (continued)

For the six months ended June 30, 2020

	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	1,091,715	11,536,207	–	12,627,922
Direct costs	–	(8,008,289)	–	(8,008,289)
Selling, general and administrative	(738,012)	(600,011)	(357,683)	(1,695,706)
Depreciation – tangible assets	–	(1,788,341)	(48,915)	(1,837,256)
Operating income (loss)	353,703	1,139,566	(406,598)	1,086,671
Other income	–	1,262,322	–	1,262,322
Amortization – intangible assets	(15,841)	(1,108,324)	(20,248)	(1,144,411)
Foreign exchange gain	–	–	1,972,573	1,972,573
Transaction recovery	–	194,433	–	194,433
Interest expense	–	(363,744)	–	(363,744)
Interest income	5,276	–	36,152	41,428
Income tax recovery	–	6,326	–	6,326
Net income	343,138	1,130,579	1,581,880	3,055,597

For the six months ended June 30, 2019

	Franchising and licensing	Corporate locations	Corporate overhead	Total
	\$	\$	\$	\$
Revenue	1,432,039	9,340,610	–	10,772,649
Direct costs	–	(5,913,855)	–	(5,913,855)
Selling, general and administrative	(648,559)	(274,160)	(625,359)	(1,548,078)
Depreciation – tangible assets	(11,884)	(1,160,668)	(71,447)	(1,243,999)
Operating income (loss)	771,596	1,991,927	(696,806)	2,066,717
Amortization – intangible assets	(9,241)	(552,510)	–	(561,751)
Foreign exchange loss	–	–	(740,058)	(740,058)
Gain on sale of assets	–	93,017	–	93,017
Interest expense	–	(272,115)	–	(272,115)
Interest income	5,661	–	7,250	12,911
Income tax expense	(31,674)	(14,988)	(87,326)	(133,988)
Net income (loss)	736,342	1,245,331	(1,516,940)	464,733

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 \$20,329 due from this franchise as at June 30, 2020 (December 31, 2019 - \$nil). During the six months ended June 30, 2020, the Company earned royalties, franchise and service fees of \$82,961 (June 30, 2019 - \$92,067) from this franchise.