

RediShred Capital Corp.

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

(expressed in Canadian dollars)

November 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 September 30, 2020.

RediShred Capital Corp.

Consolidated Statements of Financial Position

As at September 30, 2020 and December 31, 2019

(expressed in Canadian dollars)

	2020 \$	2019 \$
Assets		
Current assets		
Cash and cash equivalents	8,957,345	10,063,511
Cash attributable to the Growth Fund (note 3)	144,611	155,162
Trade receivables (note 4)	2,503,073	1,857,158
Prepaid expenses	558,393	388,223
Notes receivable from franchisees (note 5)	75,212	124,043
Total current assets	12,238,634	12,588,097
Non-current assets		
Notes receivable from franchisees (note 5)	273,385	276,575
Tangible assets (note 6)	13,226,165	12,335,590
Intangible assets (note 7)	15,135,941	12,990,916
Goodwill (note 8)	16,850,498	14,102,815
Deferred tax asset (note 18)	1,478,731	1,475,684
Total non-current assets	46,964,720	41,181,580
Total assets	59,203,354	53,769,677
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,627,270	1,814,056
Deferred revenue	178,912	130,638
Income taxes payable	7,091	7,069
Current portion of long-term debt (note 11)	3,086,919	2,875,391
Notes payable (note 9)	404,162	391,298
Lease liability (note 12)	1,028,770	805,920
Contingent consideration (note 10)	1,362,774	2,131,454
Total current liabilities	8,695,898	8,155,826
Non-current liabilities		
Long-term debt (note 11)	14,743,396	13,069,238
Deferred revenue	194,289	354,538
Notes payable (note 9)	26,752	221,605
Lease liability (note 12)	1,916,559	1,906,570
Contingent consideration (note 10)	94,669	161,603
Total non-current liabilities	16,975,665	15,713,554
Total liabilities	25,671,563	23,869,380
Shareholders' equity		
Capital stock (note 13)	35,614,614	35,543,272
Contributed surplus	1,158,498	1,056,504
Accumulated foreign currency translation loss	(719,266)	(666,286)
Deficit	(2,522,055)	(6,033,193)
Total liabilities and shareholders' equity	59,203,354	53,769,677

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

Approved on behalf of the Board of Directors

RediShred Capital Corp.

Consolidated Statements of Comprehensive Income

For the three and nine months ended September 30, 2020 and 2019

(expressed in Canadian dollars)

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2020	2019	2020	2019
	\$	\$	\$	\$
Revenue (note 14)	6,665,257	5,352,754	19,293,179	16,125,403
Corporate operating locations expenses (note 15)	(3,990,517)	(3,229,496)	(11,998,806)	(9,143,351)
Selling, general and administrative expenses (note 16)	(808,514)	(994,222)	(2,504,220)	(2,542,300)
Income before depreciation	1,866,226	1,129,036	4,790,153	4,439,752
Depreciation – tangible assets	(928,212)	(688,358)	(2,765,468)	(1,917,122)
Operating income	938,014	440,678	2,024,685	2,522,630
Interest expense	(329,969)	(169,281)	(693,713)	(441,397)
Interest income	12,504	49,032	53,932	61,943
Income before the following	620,548	320,429	1,384,904	2,143,176
Other income (note 17)	494,475	–	1,756,797	–
Amortization – intangible assets	(596,905)	(300,052)	(1,741,316)	(877,038)
(Loss) gain on sale of assets	–	(13,058)	–	79,958
Transaction recovery	(2,256)	–	192,177	–
Income before foreign exchange and income taxes	515,863	7,319	1,592,562	1,346,096
Foreign exchange gain (loss)	23,072	155,239	1,995,645	(584,819)
Income tax expense (note 18)	(83,395)	(9,666)	(77,069)	(143,654)
Net income for the period	455,540	152,892	3,511,138	617,623
Foreign currency translation gain (loss)	22,268	9,571	(52,980)	(56,022)
Comprehensive income for the period	477,808	162,463	3,458,158	561,601
Net income per share				
Basic	0.006	0.002	0.044	0.009
Diluted	0.006	0.002	0.044	0.009
Weighted average number of common shares outstanding – basic	78,815,551	66,561,105	78,643,737	70,399,385
Weighted average number of common shares outstanding – diluted	79,414,635	68,513,218	79,316,750	72,124,356

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

RediShred Capital Corp.

Consolidated Statements of Changes in Equity

For the nine months ended September 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	–	–	–	617,623	617,623
Foreign currency translation loss	–	–	(56,022)	–	<u>(56,022)</u>
Comprehensive income for the period					561,601
Issue of shares (note 13)	10,414,491	10,507	–	–	10,424,998
Stock-based compensation (note 13)	–	131,655	–	–	131,655
Balance – September 30, 2019	35,375,581	1,032,919	(705,915)	(4,636,796)	31,065,789
Balance – January 1, 2020	35,543,272	1,056,504	(666,286)	(6,033,193)	29,900,297
Net income for the period	–	–	–	3,511,138	3,511,138
Foreign currency translation loss	–	–	(52,980)	–	<u>(52,980)</u>
Comprehensive income for the period					3,458,157
Issue of shares (note 13)	71,342	2,502	–	–	73,844
Stock-based compensation (note 13)	–	99,492	–	–	99,492
Balance – September 30, 2020	35,614,614	1,158,498	(719,266)	(2,522,056)	33,531,791

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 nine months ended September 30, 2020 and 2019

(expressed in Canadian dollars)

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2020	2019	2020	2019
	\$	\$	\$	\$
Cash provided by (used in)				
Operating activities				
Net income for the period	455,540	152,892	3,511,138	617,623
Items not affecting cash				
Amortization of tangible and intangible assets	1,525,117	988,410	4,506,784	2,794,160
Stock-based compensation	(3,887)	31,753	99,493	131,655
Unrealized foreign currency loss (gain)	(46,465)	(31,752)	(1,741,487)	518,054
Transaction recovery	2,256	–	(192,177)	–
Income tax (expense) recovery	–	(924)	–	86,400
	1,932,561	1,140,379	6,183,751	4,147,892
Net change in non-cash working capital balances				
(Increase) decrease in trade receivables	(129,175)	89,597	239,051	(44,421)
(Increase) decrease in prepaid expenses	(39,904)	32,469	(152,948)	(157,454)
Increase (decrease) in accounts payable and accrued liabilities	845,121	(65,669)	228,953	(266,693)
(Decrease) increase in income taxes payable	(2,512)	14,293	(2,512)	(105,759)
(Decrease) in deferred revenue	(42,826)	(57,758)	(134,252)	(173,274)
	2,563,265	1,153,311	6,362,043	3,400,291
Financing activities				
Borrowings from long-term debt	–	–	4,167,020	7,377,877
Repayment of long-term debt	(1,590,141)	(548,933)	(2,428,343)	(1,471,414)
Issuance of capital stock (net of fees)	4,501	10,413,141	71,342	10,414,491
Payment of contingent considerations	(531,028)	(272,023)	(1,502,076)	(600,398)
Issuance of notes receivable	–	137	(7,480)	(13,200)
Repayment of notes receivable	16,858	8,259	78,038	55,482
Repayment of notes payable	(112,469)	(100,196)	(210,869)	(308,454)
Repayment of lease liabilities	(304,718)	(156,689)	(612,569)	(437,139)
	(2,516,997)	9,343,696	(444,937)	15,017,245
Investing activities				
Acquisitions	–	–	(5,474,280)	(8,760,643)
Cash held by Growth Fund	(45,528)	(27,137)	17,785	(51,952)
Purchase of tangible and intangible assets	10,751	(253,629)	(1,531,535)	(1,886,613)
Proceeds from sale of assets	–	1,000	–	132,000
	(34,777)	(279,766)	(6,988,030)	(10,567,208)
Effect of foreign exchange rate changes on cash	129,447	24,645	(35,242)	(229,817)
Net change in cash for the period	140,938	10,241,886	(1,106,166)	7,620,511
Cash – Beginning of period	8,816,407	6,209,294	10,063,511	8,830,669
Cash – End of period	8,957,345	16,451,180	8,957,345	16,451,180

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 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 in the United States, (1) via franchising, and (2) via direct operation of eleven corporate shredding locations, as of September 30, 2020.

2 Significant accounting policies

Basis of Presentation

These unaudited 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 interim 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 consolidated interim financial statements comprise the financial statements of Redishred and its subsidiaries as of September 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 interim financial statements.

The results reported in these consolidated interim 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 consolidated interim financial statements were prepared on a going concern basis, under the historical cost convention. The consolidated interim financial statements are presented in Canadian dollars, which is the Company’s presentation currency.

During 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 of September 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 consolidated interim financial statements of the Company for the three and nine months ended September 30, 2020 were authorized for issue in accordance with a resolution of the Directors on November 26, 2020.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2020

(expressed in Canadian dollars)

3 Growth fund

The Company manages an Growth Fund (formerly referred to as 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. Growth 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 Growth Fund contributions and expenses from the Company owned locations have been eliminated on consolidation.

In response to COVID-19, the Company has reduced certain program costs.

The Growth Fund related contributions and expenses as well as cash balance as of September 30, 2020 and December 31, 2019 are as follows:

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2020	2019	2020	2019
	\$	\$	\$	\$
Growth Fund contributions	60,435	73,917	126,540	217,721
Growth Fund expenses	(63,885)	(93,025)	(135,192)	(248,466)
Growth Fund deficit	(3,450)	(19,108)	(8,252)	(30,745)

As at,	September 30, 2020	December 31, 2019
	\$	\$
Cash attributable to the Growth Fund	144,611	155,162

4 Trade and other receivables

Trade receivables include receivables from franchisees and shredding and recycling customers. Other receivables include amounts related to Harmonized Sales Tax (“HST”) refunds. To support franchisees during COVID-19, the Company deferred royalty fee payments related to royalties earned in March and April of 2020 for its franchisees. 74% of franchisees have begun to repay the deferred royalties over a 12-month period. The net trade and other receivables as of September 30, 2020 and December 31, 2019 are as follows:

	September 30, 2020	December 31, 2019
	\$	\$
Trade receivables – corporate locations	2,134,392	1,649,135
Trade receivables – franchising & licensing	352,068	154,795
Total trade receivables	2,486,460	1,803,930
Other receivables	42,132	55,520
Less: Allowance for doubtful accounts	(25,519)	(2,292)
Trade receivables – net	2,503,073	1,857,158

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2020

(expressed in Canadian dollars)

5 Notes receivable from franchisees

Notes receivable arise from the financing of the initial franchise fee and from the sale of customer assets 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\$1,007 to USD\$3,735. The payments on the notes mature between dates ranging from September, 2021 to September, 2025.

The notes receivable as of September 30, 2020 and December 31, 2019 are as follows:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	\$	\$
Opening balance	400,618	89,946
Add: issuance of notes	7,480	415,616
Less: repayments	<u>(59,501)</u>	<u>(104,944)</u>
Closing balance	348,597	400,618
Less: current portion	<u>(75,212)</u>	<u>(124,043)</u>
Long-term portion	<u>273,385</u>	<u>276,575</u>

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2020

(expressed in Canadian dollars)

6 Tangible assets

	September 30, 2020			December 31, 2019		
	Cost	Accumulated depreciation	Net carrying value	Cost	Accumulated depreciation	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer equipment	349,188	(304,862)	44,527	313,779	(272,186)	41,593
Furniture & fixtures	262,869	(199,036)	63,833	255,375	(153,721)	101,654
Bins & shredding containers	2,182,561	(1,077,130)	1,105,431	1,805,818	(770,287)	1,035,531
Shredding vehicles - chassis	4,666,486	(1,873,418)	2,793,069	3,888,079	(1,286,009)	2,602,070
Shredding vehicles - box	10,116,664	(4,220,458)	5,896,206	8,294,950	(2,969,279)	5,325,671
Vehicles	204,574	(178,029)	26,544	183,062	(145,957)	37,105
Baling equipment	509,456	(82,189)	427,267	486,530	(34,208)	452,322
Right of use assets	3,931,059	(1,061,771)	2,869,289	3,253,706	(514,062)	2,739,644
Total tangible assets	22,222,858	(8,996,694)	13,226,165	18,481,299	(6,145,709)	12,335,590

	December 31, 2019					September 30, 2020
	Net carrying value	Additions	Acquisitions	Depreciation	Foreign exchange	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer equipment	41,593	28,928	-	(27,033)	1,039	44,527
Furniture & fixtures	101,654	1,992	-	(43,069)	3,256	63,833
Bins & shredding containers	1,035,531	137,346	153,925	(270,167)	48,794	1,105,431
Shredding vehicles - chassis	2,602,070	342,602	255,360	(529,564)	122,601	2,793,069
Shredding vehicles - box	5,325,671	849,127	595,840	(1,125,315)	250,882	5,896,206
Vehicles	37,105	300	13,300	(25,769)	1,608	26,544
Baling equipment	452,322	-	-	(46,369)	21,314	427,267
Right of use assets	2,739,644	-	119,322	(721,685)	732,007	2,869,289
Total tangible assets	12,335,590	1,360,296	1,137,748	(2,788,970)	1,181,501	13,226,165

	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 September 30, 2020 and December 31, 2019.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2020

(expressed in Canadian dollars)

7 Intangible assets

	September 30, 2020			December 31, 2019		
	Cost	Accumulated amortization	Net carrying value	Cost	Accumulated amortization	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer software	417,129	(110,705)	306,424	239,690	(41,884)	197,806
Re-acquired franchise rights	772,344	(417,568)	354,776	553,621	(104,131)	449,490
Trademarks & intellectual property	20,244	(189)	20,076	-	-	-
Customer relationships	19,022,780	(4,568,095)	14,454,685	15,395,138	(3,051,518)	12,343,620
Total intangible assets	20,232,476	(5,096,536)	15,135,941	16,188,449	(3,197,533)	12,990,916

	January 1, 2020		September 30, 2020			
	Net carrying value	Additions	Acquisitions	Amortization	Foreign exchange	Net carrying value
	\$	\$	\$	\$	\$	\$
Computer software	197,806	175,266	-	(67,553)	904	306,424
Re-acquired franchise rights	449,490	-	188,386	(310,799)	27,699	354,776
Trademarks & intellectual property	-	20,244	-	189	-	20,076
Customer relationships	12,343,620	-	2,838,179	(1,382,343)	655,209	14,454,666
Total intangible assets	12,990,916	195,511	3,026,565	(1,760,863)	683,813	15,135,941

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

The foreign exchange adjustment is a result of the translation of foreign operation intangible assets in US dollars to Canadian dollars at September 30, 2020 and December 31, 2019. Amortization of intangible assets for the period is included in the statement of comprehensive income. The Company's re-acquired franchise rights, and customer relationships are attributed to the Company's franchises and corporately owned locations in the US.

8 Goodwill

The goodwill as of September 30, 2020 and December 31, 2019 is as follows:

	September 30, 2020	December 31, 2019
	\$	\$
Opening balance	14,102,815	4,812,448
Acquisitions	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

September 30, 2020

(expressed in Canadian dollars)

9 Notes payable

As of September 30, 2020, the Company has the following related to notes payable:

Range of origination	Range of initial amount	Range of payment ⁽¹⁾	Range of interest per annum	Current portion	Long-term portion	Range of maturity
October 1, 2018 to January 31, 2019	USD\$75,000 to USD\$550,000	USD\$4,534 to USD\$19,753	1.25% to 5.00%	CAD\$404,162 USD\$297,178	CAD\$26,752 USD\$19,671	January 31, 2021 to October 5, 2021

(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. During the nine months ended September 30, 2020, the Company recorded a transaction recovery of \$192,177 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 September 30, 2020, the Company has the following related to contingent consideration:

Range of origination	Range of initial amount	Current portion	Long-term portion	Range of maturity
March 31, 2017 to March 1, 2020	USD\$98,000 to USD\$1,223,362	CAD\$1,362,774 USD\$1,002,040	CAD\$94,669 USD\$69,610	March 31, 2021 to December 31, 2021

11 Long-term debt

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

	September 30, 2020	December 31, 2019
	\$	\$
Bank facilities (i)	14,281,510	13,123,568
Less: transaction costs	(197,582)	(249,957)
Net bank facilities	14,083,929	12,873,611
Truck loans (ii)	3,746,387	3,071,018
Total long-term debt	17,830,317	15,944,629
Less: current portion	(3,086,919)	(2,875,391)
Total long-term debt	14,743,396	13,069,238

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2020

(expressed in Canadian dollars)

11 Long-term debt (continued)

(i) Bank facilities (continued)

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

Month of Advance	Initial amount	Interest per annum	Amortization period	September 30, 2020 Balance	December 31, 2019 Balance
	\$			\$	\$
August, 2017 (note 1)	2,006,743	4.95%	60 months	–	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	6,295,425	6,594,113
March, 2020	2,688,000	2.99%	84 months	2,688,000	–
Total bank facilities				14,281,510	13,123,568

Note 1: During the three months ended September 30, 2020, the Company repaid the outstanding balance of \$936,480 on one of its term loans.

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 from April 2020 to September 2020. Interest only payments were made during the six-month period.

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

The Company has not drawn on its operating line of credit as of September 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.

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2020

(expressed in Canadian dollars)

11 Long-term debt (continued)

(i) Bank facilities (continued)

The bank credit facilities as of September 30, 2020, contain financial covenants that require the Company to maintain certain financial ratios and meet certain financial thresholds. In response to COVID-19, the Company's financial institution waived the financial covenants required for the third and fourth quarters of 2020. 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 of September 30, 2020, the Company was in compliance with its banking covenants.

(ii) Truck loans

The Company has established a USD\$1.7 million line of credit for the purchase of shredding vehicles with 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 September 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 September 30, 2020 (December 31, 2019 – USD\$401,211).

As of September 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	3,746,387	4,755,497	4.54% to 6.40%	September 23, 2015 to March 2, 2020	December 5, 2020 to June 2, 2025

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2020

(expressed in Canadian dollars)

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 ("ROU") 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 of September 30, 2020</u>
				\$
Office and warehouse building	11	October 2020 to August 2025	6%	2,296,972
Shredding vehicles	7	August 2021 to October 2022	5.95% to 6.50%	648,357
Total				2,945,329

The total lease payments for the three and nine months ended September 30, 2020 were \$172,749 and \$605,053 (September 30, 2019 - \$215,483 and \$622,468).

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.

b) Issued and fully paid

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

	<u>Common stock</u>		<u>Warrants</u>		<u>Total</u>	
	<u>Number</u>	<u>\$</u>	<u>Number</u>	<u>\$</u>	<u>Number</u>	<u>\$</u>
Balance September 30, 2020	78,825,605	35,014,606	1,823,400	600,008	80,524,005	35,614,614
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 nine months ended September 30, 2020, was 78,643,737 (December 31, 2019 – 72,449,429). The diluted weighted average number of common shares outstanding for the nine months ended September 30, 2020, was 79,316,750 (December 31, 2019 – 74,477,053).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2020

(expressed in Canadian dollars)

13 Capital stock (continued)

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 nine months ended September 30, 2020 (3,750 – nine months ended September 30, 2019). There are 1,823,400 warrants outstanding as of September 30, 2020.

e) Stock options

The following table summarizes the movements in the Company's stock options during the nine months ended September 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	(325,000)	0.15	(72,500)	0.37
Expired	(5,000)	0.10	(10,000)	0.13
Outstanding – closing	<u>1,972,150</u>	0.60	<u>2,050,150</u>	0.52

For the nine months ended September 30, 2020, the net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$99,492 (for the nine months ended September 30, 2019 – \$131,655).

14 Revenue

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

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2020	2019	2020	2019
	\$	\$	\$	\$
Royalties and license fees	468,612	559,517	1,402,395	1,732,236
Franchise fees	42,825	57,758	134,252	173,274
Growth Fund contributions (note 3)	60,435	73,917	126,940	217,721
Shredding services	5,037,378	3,901,875	14,587,134	11,406,442
Sale of paper products	696,354	461,464	2,044,294	2,001,105
Electronic waste services	359,653	298,223	998,164	594,625
Total revenue	<u>6,665,257</u>	<u>5,352,754</u>	<u>19,293,179</u>	<u>16,125,403</u>

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2020

(expressed in Canadian dollars)

15 Corporate location expenses

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

	<i>For the 3 months ended September 30</i>		<i>For the 9 months ended September 30</i>	
	2020	2019	2020	2019
	\$	\$	\$	\$
Shredding vehicle and related expenses	978,873	756,576	2,785,494	2,039,336
Acquisition costs	25,727	128,345	122,735	256,690
Employee wages expense	2,031,402	1,569,439	6,119,436	4,621,735
Employee benefit expense	383,092	342,821	1,265,512	948,332
Office and administration expense	571,422	432,315	1,705,629	1,277,258
Total corporate operating expenses	3,990,517	3,229,496	11,998,806	9,143,351

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 September 30</i>		<i>For the 9 months ended September 30</i>	
	2020	2019	2020	2019
	\$	\$	\$	\$
Employee wages and benefits	415,126	442,375	1,231,580	1,193,086
Share-based compensation	-	31,754	99,493	131,655
Acquisition costs	16,712	113,492	107,270	146,237
Professional fees	76,138	74,991	218,625	194,963
Technology	112,097	111,026	317,687	269,830
Growth Fund expenses (note 3)	63,885	93,025	135,192	248,466
Other expenses	124,556	127,559	394,373	358,063
Total selling, general and administrative expenses	808,514	994,222	2,504,220	2,542,300

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 September 30</i>		<i>For the 9 months ended September 30</i>	
	2020	2019	2020	2019
	\$	\$	\$	\$
Wages and benefits	219,218	210,957	596,949	650,688
Share-based compensation	17,182	78,013	90,449	163,070
Total	236,400	288,970	687,398	813,758

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

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2020

(expressed in Canadian dollars)

17 Other income

In April 2020, the Company qualified for the Paycheck Protection Program loan ("PPP") in the United States which has been made available to eligible US businesses that have been affected by the COVID-19 pandemic. Based on preliminary calculations of the loan forgiveness, the Company believes it has met the terms for forgiveness of the loan in full. As a result, the amount recorded as a loan payable as of June 30, 2020 has been realized into Other Income during the three months ended September 30, 2020. During the nine months ended September 30, 2020, the Company has qualified for and received \$1.75M in government assistance.

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 Growth Fund, trade receivables and notes receivable from franchisees. The Company's financial liabilities include accounts payable and accrued liabilities, notes payable, long-term debt, lease liabilities 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. One of the Company's term loans and its line of credit has a variable interest rate of prime plus 1.00% per annum. The Company has a fixed interest rates of 3.50% and 2.99% per annum on 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 6.40% 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

September 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 September 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 franchisees accounted for 80%). For the nine months ended September 30, 2020, three (3) franchisees accounted for 23% of the Company's revenues related to franchising and licensing (December 31, 2019 - 3 franchisees accounted for 23%). As of September 30, 2020, there was \$185,528 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. 74% of franchisees have begun to repay the deferred royalties over a 12-month period. 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. As of September 30, 2020, no customer accounted for more than 10% of the accounts receivable balance. For the nine months ended September 30, 2020 and 2019, no customer accounted for more than 10% of the Company's revenues in this category. As of September 30, 2020, 10% of accounts receivable in this category was over 90 days old (December 31, 2019 – 6%). As at September 30, 2020, the Company recorded an allowance for credit losses from receivables of \$18,765 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 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 nine months ended September 30, 2020, the Company recorded a foreign exchange gain of \$1,995,645 (September 30, 2019 – loss of \$584,819).

Exchange rates utilized (USD to CAD):

As at,	September 30, 2020	December 31, 2019
	\$	\$
Close rate	1.36	1.30
For the nine months ended,	September 30, 2020	September 30, 2019
	\$	\$
Average rate	1.35	1.33

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 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 \$8,695,898 at September 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 \$12,238,634 at September 30, 2020 (December 31, 2019 - \$12,588,097) including cash and cash equivalents of \$8,957,345 (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	2,397,270	230,000	–	–
Notes payable	149,853	254,309	26,752	–
Long-term debt	768,082	2,318,837	12,291,743	2,451,653
Contingent consideration	734,746	628,028	94,669	–
Lease liabilities	232,433	796,337	1,916,559	–
Interest	Less than 3 months \$	3 months to 1 year \$	1 – 5 years \$	Over 5 years \$
Notes payable	5,710	5,963	–	–
Long-term debt	168,064	461,029	1,406,094	85,142
Lease liabilities	40,474	115,408	147,189	–
Total principal and interest	Less than 3 months \$	3 months to 1 year \$	1 – 5 years \$	Over 5 years \$
Accounts payable and accrued liabilities	2,397,270	230,000	–	–
Notes payable	155,563	260,272	26,752	–
Long-term debt	936,145	2,779,866	13,697,837	2,536,796
Contingent consideration	734,746	628,028	94,669	–
Lease liabilities	272,907	911,745	2,063,748	–

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 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 September 30, 2020, amounted to \$348,597 (December 31, 2019 - \$276,575) with fair value estimated to be \$347,515 (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).

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 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	Total
	September 30, 2020	September 30, 2020	September 30, 2020	September 30, 2020
	\$	\$	\$	\$
ASSETS				
Current assets				
Cash and cash equivalents	2,367,704	4,699,170	1,890,471	8,957,345
Cash attributable to the Growth Fund	144,611	-	-	144,611
Trade and other receivables	1,862,556	614,505	26,012	2,503,073
Prepaid expenses	497,202	-	61,191	558,393
Notes receivable from franchisees	75,212	-	-	75,212
Total current assets	4,947,285	5,313,675	1,977,674	12,238,634
Non-current assets				
Notes receivable from franchisees	273,385	-	-	273,385
Tangible assets	-	12,987,610	238,555	13,226,165
Intangible assets	93,086	14,808,251	234,604	15,135,941
Goodwill	-	16,850,498	-	16,850,498
Deferred tax asset	-	-	1,478,731	1,478,731
Total assets	5,313,756	49,960,034	3,929,564	59,203,354
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	152,425	2,028,575	446,270	2,627,270
Deferred revenue	178,912	-	-	178,912
Income taxes payable	7,091	-	-	7,091
Current portion of long-term debt	-	3,086,919	-	3,086,919
Notes payable	-	404,162	-	404,162
Lease liabilities	-	966,498	62,272	1,028,770
Contingent consideration	-	1,362,774	-	1,362,774
Total current liabilities	338,428	7,848,928	508,542	8,695,898
Non-current liabilities				
Long-term debt	-	14,743,396	-	14,743,396
Deferred revenue	194,289	-	-	194,289
Notes payable	-	26,752	-	26,752
Lease liabilities	-	1,718,793	197,766	1,916,559
Contingent consideration	-	94,669	-	94,669
Total liabilities	532,717	24,432,538	706,308	25,671,563

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2020

(expressed in Canadian dollars)

21 Segment reporting (continued)

	Franchising and licensing	Corporate locations	Corporate	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 Growth 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	9,693,883	53,769,677
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	36,485	1,268,917	508,654	1,814,056
Deferred revenue	130,638	-	-	130,638
Income taxes payable	7,069	-	-	7,069
Current portion of long-term debt	-	2,875,391	-	2,875,391
Notes payable	-	391,298	-	391,298
Lease liability	-	743,648	62,272	805,920
Contingent consideration	-	2,131,454	-	2,131,454
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
Note payable	-	221,605	-	221,605
Lease liability	-	1,708,804	191,766	1,906,570
Contingent consideration	-	161,603	-	161,603
Total liabilities	528,730	19,728,208	508,654	23,869,380

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2020

(expressed in Canadian dollars)

21 Segment reporting (continued)

Geographic information

	September 30, 2020	December 31, 2019
Canada	\$	\$
Tangible assets	238,555	306,429
Intangible assets	234,604	184,408
United States		
Notes receivable from franchisees	273,385	276,575
Tangible assets	12,987,610	12,029,161
Intangible assets	14,901,337	12,806,508
Goodwill	16,850,498	14,102,815
Total		
Notes receivable from franchisees	273,385	276,575
Tangible assets	13,226,165	12,335,590
Intangible assets	15,135,941	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

September 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 September 30, 2020

	Franchising and licensing \$	Corporate locations \$	Corporate \$	Total \$
Revenue	571,872	6,093,385	–	6,665,257
Direct costs	–	(3,990,517)	–	(3,990,517)
Selling, general and administrative	(322,560)	(300,006)	(185,948)	(808,514)
Depreciation – tangible assets	–	(903,980)	(24,232)	(928,212)
Operating income (loss)	249,312	898,882	(210,180)	938,014
Other income	–	302,935	191,540	494,475
Amortization – intangible assets	(19,263)	(566,862)	(10,780)	(596,905)
Foreign exchange gain	–	–	23,072	23,072
Transaction recovery	–	(2,256)	–	(2,256)
Interest expense	–	(329,969)	–	(329,969)
Interest income	6,760	–	5,744	12,504
Income tax expense	(82,786)	(609)	–	(83,395)
Net income (loss)	154,023	302,121	(604)	455,540

For the three months ended September 30, 2019

	Franchising and licensing \$	Corporate locations \$	Corporate \$	Total \$
Revenue	691,192	4,661,562	–	5,352,754
Direct costs	–	(3,229,496)	–	(3,229,496)
Selling, general and administrative	(416,516)	(137,081)	(440,625)	(994,222)
Depreciation – tangible assets	–	(631,413)	(56,945)	(688,358)
Operating income (loss)	274,676	663,572	(497,570)	440,678
Amortization – intangible assets	(4,882)	(295,170)	–	(300,052)
Foreign exchange gain	–	–	155,239	155,239
Loss on sale of assets	–	(13,058)	–	(13,058)
Interest expense	–	(169,281)	–	(169,281)
Interest income	7,299	–	41,733	49,032
Income tax (expense) recovery	(24,053)	(606)	14,993	(9,666)
Net income (loss)	253,040	185,457	(285,605)	152,892

RediShred Capital Corp.

Notes to Condensed Consolidated Financial Statements

September 30, 2020

(expressed in Canadian dollars)

21 Segment reporting (continued)

For the nine months ended September 30, 2020

	Franchising and licensing	Corporate locations	Corporate	Total
	\$	\$	\$	\$
Revenue	1,663,587	17,629,592	–	19,293,179
Direct costs	–	(11,998,806)	–	(11,998,806)
Selling, general and administrative	(1,060,572)	(900,017)	(543,631)	(2,504,220)
Depreciation – tangible assets	–	(2,692,321)	(73,147)	(2,765,468)
Operating income (loss)	603,015	2,038,448	(616,778)	2,024,685
Other income	–	1,565,257	191,540	1,756,797
Amortization – intangible assets	(35,104)	(1,675,186)	(31,026)	(1,741,316)
Foreign exchange gain	–	–	1,995,645	1,995,645
Transaction recovery	–	192,177	–	192,177
Interest expense	–	(693,713)	–	(693,713)
Interest income	12,036	–	41,896	53,932
Income tax (expense) recovery	(82,786)	5,717	–	(77,069)
Net income	497,161	1,432,700	1,581,277	3,511,138

For the nine months ended September 30, 2019

	Franchising and licensing	Corporate locations	Corporate	Total
	\$	\$	\$	\$
Revenue	2,123,231	14,002,172	–	16,125,403
Direct costs	–	(9,143,351)	–	(9,143,351)
Selling, general and administrative	(1,065,075)	(411,241)	(1,065,984)	(2,542,300)
Depreciation – tangible assets	–	(1,776,846)	(140,276)	(1,917,122)
Operating income (loss)	1,058,156	2,670,734	(1,206,260)	2,522,630
Amortization – intangible assets	(14,122)	(862,916)	–	(877,038)
Foreign exchange loss	–	–	(584,819)	(584,819)
Gain on sale of assets	–	79,958	–	79,958
Interest expense	–	(441,397)	–	(441,397)
Interest income	12,960	–	48,983	61,943
Income tax expense	(55,727)	(15,596)	(72,331)	(143,654)
Net income (loss)	1,001,267	1,430,783	(1,814,427)	617,623

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 \$20,070 due from this franchise as at September 30, 2020 (December 31, 2019 - \$nil). During the nine months ended September 30, 2020, the Company earned royalties, franchise and service fees of \$126,719 (September 30, 2019 - \$125,141) from this franchise.