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## Basis for Presentation

The following management's discussion and analysis ("MD&A") for Redishred Capital Corp. (the "Company" or "Redishred") has been prepared by management and focuses on key statistics from the consolidated interim financial report and pertains to known risks and uncertainties. To ensure that the reader is obtaining the all pertinent information, this MD&A should be read in conjunction with material contained in the Company's unaudited consolidated interim financial statements for the three and six months ended June 30, 2017 and 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting standards Board ("IASB"). The Company's presentation currency is the Canadian dollar. The functional currency of the Company's foreign subsidiaries is the U.S. dollar, as it is the currency of the primary economic environment in which it operates. Additional information on Redishred, including these documents and the Company's 2016 Annual Report are available on SEDAR at www.sedar.com. The discussions in this MD&A are based on information available as at August 25, 2017.

## Forward Looking Statements

Certain information included in this discussion may constitute forward-looking statements. Often, but not always, forward-looking reports can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking reports involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In particular, certain reports, analysis and commentary in this document reflect Redishred's anticipated outlook of future events. These reports include, but are not limited to:

(i) the Company's ability to achieve certain levels of cash flow and earnings before interest, taxes, depreciation and amortization ("EBITDA") as well as meet its financial obligations as they come due over the next twelve months, which may be impacted by:

  a. the growth of the system sales achieved by existing and new locations,
  b. the growth of sales achieved in corporate locations,
  c. the economic circumstances in certain regions of the United States,
  d. the level of corporate overhead,
  e. the number of new franchises awarded,
  f. the size of franchise territories awarded,
  g. number and size of acquisitions,
  h. the ability to realize efficiencies from acquired operations,
  i. the exchange rate fluctuations between the US and Canadian dollar,
  j. the outcome of potential litigation,

(ii) anticipated system sales, royalty revenue and corporate store revenue, which may be impacted by industry growth levels which to date have been driven by favourable legislation and favourable media coverage on the impacts of identity theft and corporate security issues;

(iii) recycling revenues may be impacted by commodity paper prices which will vary with market conditions both in the United States and Internationally;

(iv) the anticipated corporate results which may be impacted by the ability of the Company to attain the anticipated sales and efficiencies; and by the performance of the local economies;

(v) the awarding of franchises and licences, which is subject to the identification and recruitment of candidates with the financial capacity and managerial capability to own and operate a Proshred franchise or licence;

(vi) the commencement of new franchise and/or licenced operations which may be delayed by the inability of the franchisee to comply with the franchise agreement terms and conditions post execution;

(vii) acquisition activity may be impacted by the level of financing that can be obtained, the identification of appropriate assets and agreement of suitable terms;

These forward-looking reports should not be relied upon as representing the Company's views as of any date subsequent to the date of this document. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking reports will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Company.

## Non-IFRS Financial Measures

There are measures included in this MD&A that do not have a standardized meaning under International Financial Reporting Standards ("IFRS") and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. The Company includes these measures as a means of measuring financial performance.

- **System sales** are revenues generated by franchisees, licensees and corporately operated locations. The system sales generated by franchisees and licensees drive the Company's royalties. The system sales generated by corporate locations are included in the Company's revenues.

- **Same store or location results** for system sales, royalty fees and corporate operational results are indicators of performance of franchisees, licensees and corporately operated locations that have been in the system for equivalent periods in 2017 and 2016.

- **EBITDA** is defined as earnings before interest, taxes, depreciation and amortization, reversal of impairment and gains or losses on sale of assets and corporate overhead.

- **Normalized EBITDA** is defined as EBITDA excluding one-time costs that relate to stock based compensation expense for the issuance of options to members of the Board of Directors and senior management.

- **Consolidated Operating Income** is defined as revenues less all operating expenses, depreciation and amortization related to the tangible assets. Depreciation and amortization for intangible assets has not been included in this calculation.

- **Corporate Location Operating Income** is the income generated by corporately operated locations. The operating income generated is inclusive of depreciation on tangible equipment, primarily trucks and containers. It does not include amortization related to intangibles assets, allocations for corporate overhead or interest expense.

- **Normalized operating income** is defined as consolidated operating income excluding one-time costs that relate to stock based compensation expense for the issuance of options to members of the Board of Directors and senior management.

## Key Performance Indicators ("KPIs")

Management measures Redishred's performance based on the following KPIs:

1. System sales growth – management expects to achieve increases in system sales, which drive the Company's royalties and corporate location revenues.

2. EBITDA growth and margin – management uses this performance measure to assess both the Company's performance and the corporate locations' performance. Management is focused on growing the consolidated Company EBITDA and the corporate locations' EBITDA.

3. Consolidated Operating Income increases – this measure considers Redishred's ability to increase its operating income from operations and includes depreciation on tangible assets, the largest being truck assets.

4. Corporate Location Operating Income growth – management's expectation is to grow operating income generated by the corporate locations as it drives the Company's cash flow.

5. Normalized Fixed Charge Coverage Ratio – a common measure of credit risk used by lenders, this measure considers Redishred's ability to pay both interest and principal on outstanding debt. The ratio is calculated using normalized EBITDA and does not include one-time costs. Management is focused on increasing this ratio, as generally, the higher the fixed charge coverage ratio, the lower the credit risk.

6. Normalized Total Funded Debt to EBITDA Ratio – this measures Redishred's leverage and its' ability to pay all outstanding debt and assesses the Company's financial health and liquidity position. The ratio is calculated using normalized EBITDA and does not include one-time costs. Management's goal is to continue to reduce this ratio which is an indicator that the Company has sufficient funds to meet its financial obligations.

## Financial and Operational Highlights

The following table outlines Redishred's key IFRS and non-IFRS measures:

| (in 000's except as noted) | | | |
|---|---|---|---|
| For the six months ended June 30, | **2017** | 2016 | *% change* |
| **System Sales Performance – in USD** | | | |
| Total locations in the United States | **29** | 28 | *4%* |
| System sales | **$17,193** | $14,446 | *19%* |
| *Percentage scheduled* | ***46%*** | *48%* | |
| System sales – same location | **$17,072** | $14,420 | *18%* |
| *Percentage scheduled* | ***47%*** | *48%* | |
| **Consolidated Operating Performance – in CAD** | | | |
| Revenue | **$5,736** | $4,824 | *19%* |
| EBITDA | **$1,506** | $1,370 | *10%* |
| Normalized EBITDA(1) | **$1,783** | $1,370 | *30%* |
| Operating Income | **$1,054** | $1,087 | *(3)%* |
| Normalized Operating Income(1) | **$1,331** | $1,087 | *22%* |
| As a percentage of revenue | ***23%*** | *23%* | |
| Normalized Operating Income per share fully diluted(2) | **$0.029** | $0.037 | *(21)%* |
| **Corporate Location Performance – in CAD** | | | |
| Revenue | **$4,685** | $3,735 | *25%* |
| EBITDA | **$1,873** | $1,385 | *35%* |
| Operating income | **$1,537** | $1,102 | *39%* |
| *As a percentage of revenue* | ***33%*** | *30%* | |
| As at June 30 and December 31, | **2017** | 2016 | *% change* |
| **Capital Management – in CAD** | | | |
| Working capital (Normalized)(3) | **$958** | $116 | *726%* |
| Debt to total assets ratio | **0.49** | 0.95 | *48%* |
| Normalized Fixed Charge Coverage ratio – rolling 12 months | **1.90** | 1.18 | *61%* |
| Normalized Total Funded Debt to EBITDA ratio – rolling 12 months | **1.59** | 3.39 | *53%* |

(1) Excludes a one-time cost related to stock based compensation expense for the issuance of options to members of the Board of Directors and senior management.
(2) The Company issued 17,962,929 common shares on January 23, 2017.
(3) As at December 31, 2016, working capital has been increased by $4.5M for this calculation as the Line of Credit that was due to expire on November 27, 2017 was extended by 2 years shortly after year end. Under IFRS the Line of Credit was fully classified as current.

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## Summary of first half of 2017 Results and Operations

***Stronger System Sales driving both Royalty and Corporate Location Revenue***

*System Sales:* Redishred achieved 19% growth in total system sales during the first half of 2017 versus the first half of 2016. System sales increased due to the Company's continued focus on providing recurring scheduled service to small and medium sized enterprise clients. In addition, the Company continued to invest in marketing initiatives designed to capture one-time unscheduled revenue. During the six months ended June 30, 2017, service revenue grew by 13% over the same comparative period in 2016. Additionally, paper prices increased on average by 35% with paper tonnage increasing by 10% over the first half of 2016. This resulted in recycling revenue growth of 54%.

*Royalties:* As a result of the increase in system sales, royalty revenues grew by 15% in the first half of 2017 over the first half of 2016.

*Corporate Locations:* The corporate location revenues and EBITDA grew by 25% and 35%, respectively, during the first half of 2017 versus the first half of 2016. Same store corporate location revenues and EBITDA grew by 16% and 34%, respectively, during the six months ended June 30, 2017 over the same prior year period.

***Corporate Location Investments and Centralization Plan – creating a scalable platform***

During the six months ended June 30, 2017, corporate location EBITDA has grown 35% over the same comparative prior year period and operating income has grown by 39%. The Company's investments in the later part of 2016 and early into 2017 have allowed the Company to grow both its' sales and operating income in 2017. These investments included:

(1) enhancing corporate location management;
(2) centralizing inside sales functions, invoicing and accounts receivables; and
(3) purchasing new shredding trucks and refurbishing older trucks.

The Company's centralization program was completed in the first half of 2017.

***Debt Reduction and Improving Balance Sheet***

Over the last three years, the Company has reduced the amount owing on its line of credit by $3.75 million. As a result of this, the Company's rolling twelve-month total funded debt to EBITDA ratio has decreased by 53% since December 31, 2016. As at June 30, 2017, the Company's normalized working capital has improved by $842,000 since December 31, 2016. Management will continue to balance investment in human resources, trucks and technology with continued management of its debt balances.

***Equity Raise and Debt Refinancing***

On January 23, 2017, the Company closed its private placement raising $4.03 million. In addition, 1,125,000 stock options were exercised for a total amount of $207,500. The Company plans to use the funds to conduct accretive acquisitions. The Company also converted three of its term loans and convertible debentures into equity, which were obtained from certain members of the Company's Board of Director's.

Subsequent to quarter-end, on July 28, 2017, the Company secured senior credit facilities from Bank of Montreal ("BMO"). These facilities include:

(1) An operating demand loan of $1 million bearing interest at BMO's prime rate plus 1.7% and;
(2) A non-revolving term loan in the amount of $3 million with an amortization of 60 months from the date of drawdown, bearing interest at BMO's prime rate plus 2.0%.

The Company used $2 million of the BMO term loan to repay in full the outstanding balance on the pre-existing related party line of credit.

## Business Overview

Redishred Capital Corp. was founded in 2006 with the purpose to acquire and grow a business platform in the information destruction and security industry. In 2008, Redishred acquired Professional Shredding Corporation and its primary assets which included the Proshred system and brand, including 16 franchised locations.

The Company is headquartered in Mississauga, Ontario, Canada and operates the Proshred franchise and licence business (defined as the business of granting and managing franchises in the United States and by way of a master license arrangement in the Middle East) as well as operates corporate shredding businesses directly. In the first half of 2017 the Company achieved $17 million USD in System Sales ($12.3 million USD through franchised/licensed locations and $4.7 million USD through the corporately owned operations).

The Company's strategy is to:

1. Maximize same location revenue (in particular scheduled/recurring revenue) and earnings.
2. Expand the location footprint in North America by way of both franchising and accretive acquisitions.
3. Drive depth of service and earnings in existing locations by way of conducting smaller accretive acquisitions.

As of June 30, 2017, there were 29 operating Proshred locations in the United States servicing 31 metropolitan markets. Of the 29 operating locations, 22 are franchised, allowing the owner of the franchise to operate a Proshred business in certain geographic area(s). The Company derives revenues from franchise and license fees as well as royalty and service related fees from the 22 franchised locations.

The Company also operates 7 Proshred locations directly, including Syracuse, Albany, Milwaukee, New York City, Charlotte, Miami and Northern Virginia. These corporate locations generate shredding service revenue and recycling revenue as well as incur costs related to servicing customers, marketing, salaries and administration.

As of June 30, 2017, the Company also has one international master license to operate in the Middle East[1]. There are Proshred locations in operation in the Qatar, the UAE, Saudi Arabia, Lebanon and Oman.

*[1] Middle East license includes Gulf Cooperation Council countries of Saudi Arabia, Kuwait, Bahrain, Qatar, The United Arab Emirates, the Sultanate of Oman and the Republic of Yemen, in addition to, the Eastern Mediterranean Levant Countries of Turkey, Syria, Lebanon, Palestine, Jordan, Iraq, and Egypt including the islands of Crete, Cyprus, Rhodes, Chios and Lesbos.*

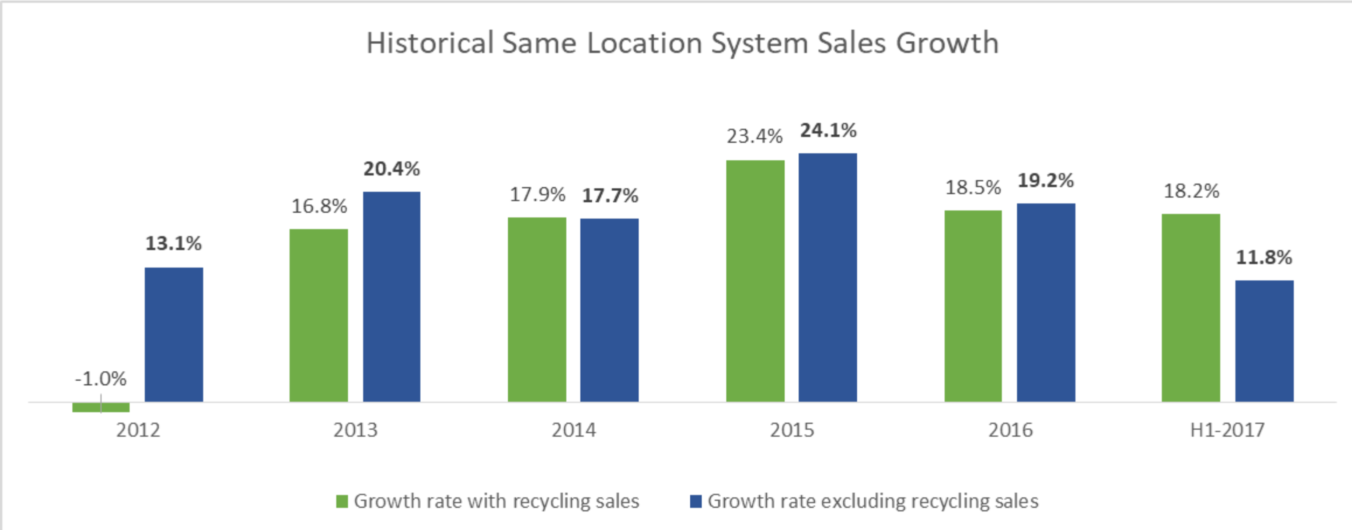
## Business Strategy

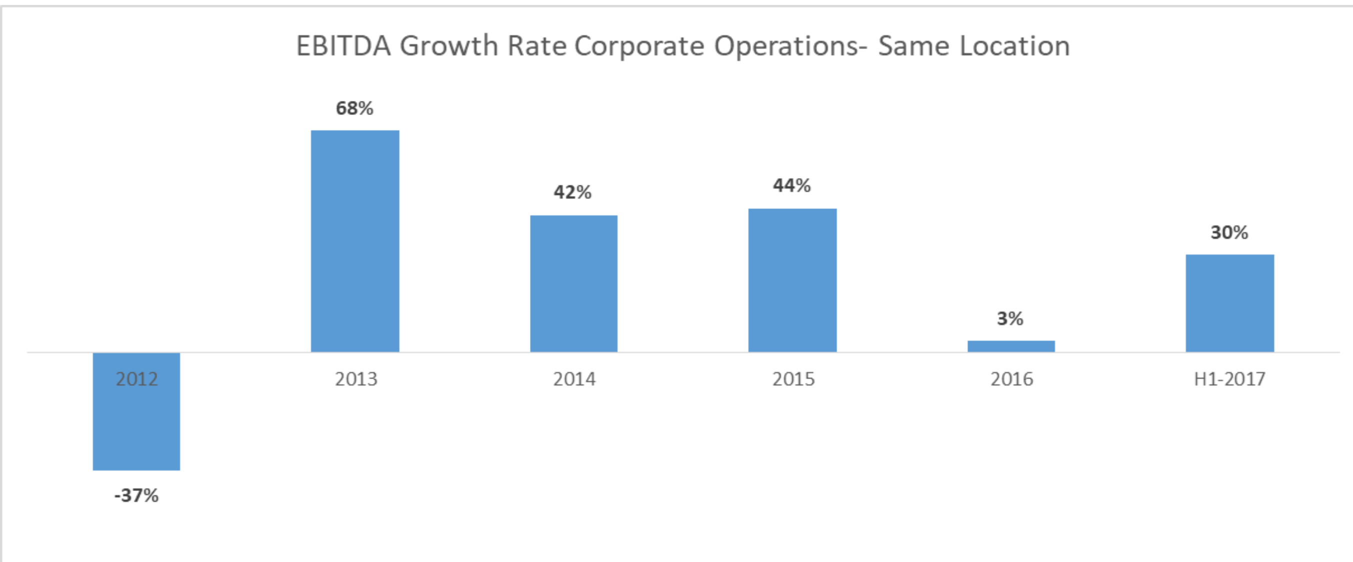
### *Maximize Same Location Revenue and Earnings*

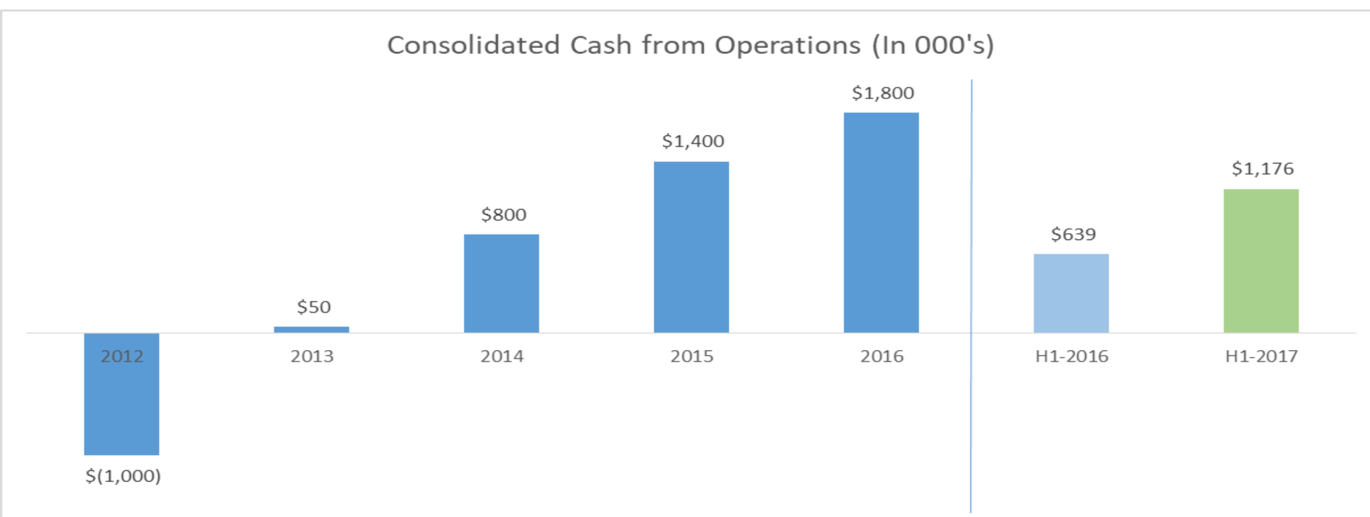
Management will focus on three key areas to drive same location revenue and earnings:

(1) maximizing revenue and earnings on existing routes;
(2) enhancing inbound and outbound marketing and sales processes and;
(3) minimize operating and administrative costs.

Redishred and its' franchisees have continued to invest in trucks, marketing and sales initiatives as well as human resources to maximize the outcome in our three core areas of performance. Over the last 5 years, Redishred has seen an average increase of 18% in same location system revenue (excluding recycling revenue), and an average increase of 25% in same location corporate store EBITDA. This has led to continued annual increases in consolidated cash flows from operations.




Note (1): The H1-2017 (first half of 2017) growth rates in the above charts are calculated over H1-2016 (first half of 2016).

***Expanding the Location Footprint***

The Company has traditionally expanded its footprint utilizing a franchise and licence model. This model provides Redishred with royalty and franchise/licence fee income, in exchange for an exclusive service and marketing area. The Company has and will continue to provide various support programs to its franchisees to drive both their revenue and earnings. The Company's plan for 2017 and onward will not only include footprint growth by way of franchising, but also by way of accretive acquisitions.

The Company's North American locations are as follows:

| Franchised Location | Markets Serviced | Operating Since |
|---|---|---|
| Springfield, MA | Western Massachusetts including Boston suburbs | June 2003 |
| Tampa Bay, FL | Tampa Bay, Clearwater, St. Petersburg, Sarasota, Lakeland and Orlando. | March 2004 |
| Denver, CO | Greater Denver area | August 2004 |
| Philadelphia, PA | Philadelphia and northern suburbs | September 2006 |
| Kansas City, MO | Greater Kansas City area | December 2006 |
| New Haven, CT | State of Connecticut | April 2007 |
| Chicago, IL | Greater Chicagoland area | April 2007 |
| Raleigh, NC | Raleigh, Winston Salem, Greensborough and Eastern North Carolina | June 2007 |
| Baltimore, MD | Baltimore and Washington, DC | November 2007 |
| Orange County, CA | Orange County | September 2009 |
| San Diego, CA | San Diego | October 2010 |
| Indianapolis, IN | Greater Indianapolis area | June 2011 |
| Atlanta, GA | Greater Atlanta area | January 2012 |
| Phoenix, AZ | Phoenix, Scottsdale and Tempe | January 2012 |
| Dallas, TX | Dallas and Fort Worth | March 2012 |
| Houston, TX | Greater Houston area | November 2012 |
| Richmond, VA | Richmond, Norfolk and Virginia Beach | March 2013 |
| San Francisco, CA | San Francisco, Silicon Valley, San Jose, East Bay, Oakland | October 2013 |
| Seattle, WA | Seattle and Tacoma | October 2013 |
| Southern New Jersey, NJ | Southern New Jersey and Delaware | May 2014 |
| Minneapolis, MN | Minneapolis and St. Paul | February, 2016 |
| St. Louis, MO | Greater St. Louis area | August 2016 |

| Corporate Location | Markets Serviced | Operating Since(1) |
|---|---|---|
| Syracuse, NY | Syracuse and Rochester, NY | March 2004 |
| Albany, NY | Albany and the Hudson River Valley | April 2003 |
| Milwaukee, WI | Milwaukee, Madison and Racine | August 2003 |
| New York City, NY | New York City, Westchester, Rockland, Dutchess and Putnam Counties, Bergin County, NJ, Staten Island and Long Island | January 2008 |
| Miami, FL | Miami, Fort Lauderdale and Palm County | June 2008 |
| Charlotte, NC | Charlotte, Statesville, Ashville, and Rock Hill, SC | April 2006 |
| N. Virginia, VA | Washington, DC suburbs including Arlington, Alexandria, Tysons, Reston and Dulles | July 2008 |

*(1) Syracuse has been corporately operated since May 1, 2010; Albany has been corporately operated since July 1, 2010; Milwaukee has been corporately operated since January 1, 2011 and New York City has been corporately operated since January 1, 2012. The Charlotte, NC location has been corporately operated since July 31, 2013. The Miami, FL business has been corporately operated since January 1, 2014. The N. Virginia, VA business has been corporately operated since March 31, 2017.*

### *Driving Depth in existing Corporate Markets*

With a strong presence in New York State, Western North Carolina, Florida, and the Northern Virginia markets, Redishred's plan is to conduct acquisitions that lead to the following outcomes:

1. Increase our market share in existing corporate markets.
2. Generate strong route densities driving stronger route operating income.
3. Minimize risk of client service issues by having increased access to trucks in close by markets.
4. Maximize the utilization of centralized services in our Toronto head office.

## Performance Compared to 2017 Targets

| **Growth of Same Location Service System Sales[(1)]:** | |
|---|---|
| **2017 Target** | Growth of 12% to $27.5M USD. |
| **Q2-2017 YTD Performance** | Redishred is on target for achieving its annual goal.<br>Redishred's same location service system sales grew by 12% in the 1st half of 2017 over the 1st half of 2016, achieving $13.6M USD.<br>Same location scheduled sales grew by 15% and same unscheduled sales grew by 8% over the 1st half of 2016. |

| **Consolidated EBITDA from existing operations:** | |
|---|---|
| **2017 Target** | Earn EBITDA of $2.8M from existing locations, growing by 18% over 2016. |
| **Q2-2017 YTD Performance** | Redishred is on target for achieving its annual goal.<br>During the 1st half of 2017, Redishred attained $1.44M in EBITDA from existing operations, growing 5% over the 1st half of 2016.<br>Redishred earned $1.7M in normalized EBITDA (excluding one-time stock based compensation expense) during the 1st half of 2017, growing 25% over the 1st half of 2016. |

| **Consolidated Operating Income from existing operations[(2)]:** | |
|---|---|
| **2017 Target** | At least $2.0M. |
| **Q2-2017 YTD Performance** | Redishred is on target for achieving its annual goal.<br>During the 1st half of 2017, Redishred earned $1.0M in consolidated operating income from existing operations. The Company attained $1.29M in normalized operating income after adjusting for one-time stock based compensation expense. Normalized operating income grew 19% over the 1st half of 2016. |

| **Expand by way of Accretive Acquisitions:** | |
|---|---|
| **2017 Target** | Conduct between $3M and $4M of acquisitions. |
| **Q2-2017 YTD Performance** | On March 31, 2017, the Company purchased the Proshred Northern Virginia franchise for CAD$1.4M. Redishred is actively pursuing other acquisitions. |

| **Franchise Development:** | |
|---|---|
| **2017 Target** | Award between two and four new franchised locations per annum. |
| **Q2-2017 YTD Performance** | During the six months ended June 30, 2017, the Company did not award any new franchise locations. Redishred is actively pursuing franchise opportunities. |

(1) Service related sales excludes recycling sales.
(2) Existing operations includes the existing corporate operations, the franchise system and the existing infrastructure to support the existing locations.

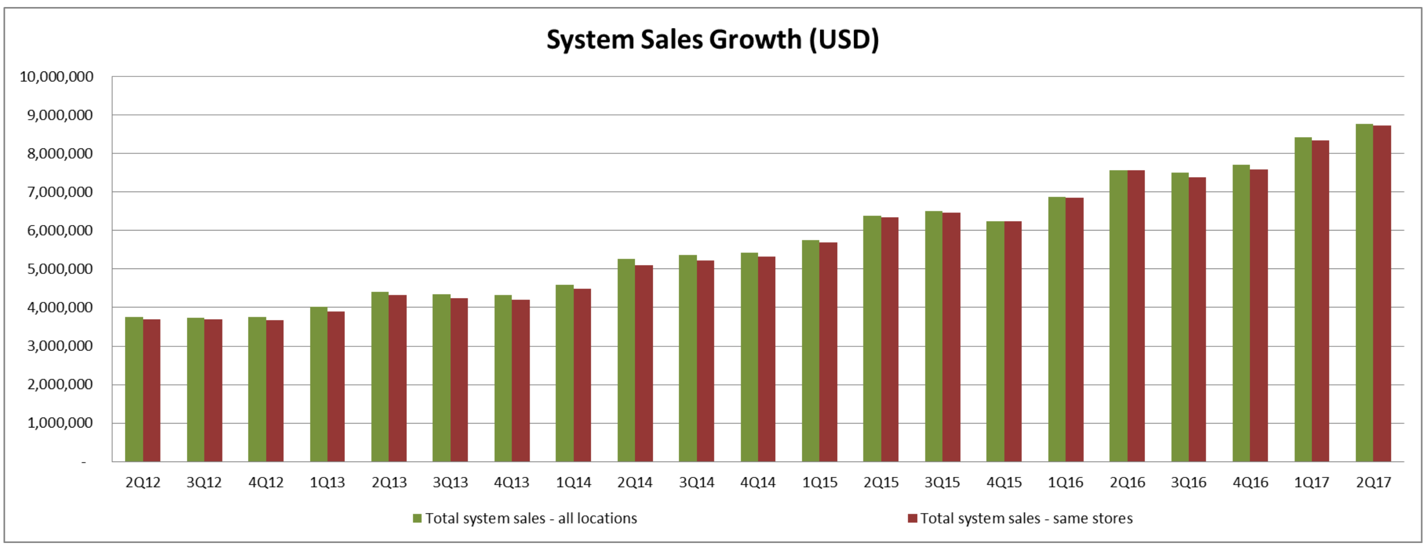
## System Sales

Franchisees, corporate and international locations derive revenue by providing shredding services to their customers, and by selling recycled paper and other recyclable by-products. These sales are commonly referred to as "system sales," and are the key driver of royalty and service fee revenue. System sales are denominated and reported in US dollars during the reported periods as follows:

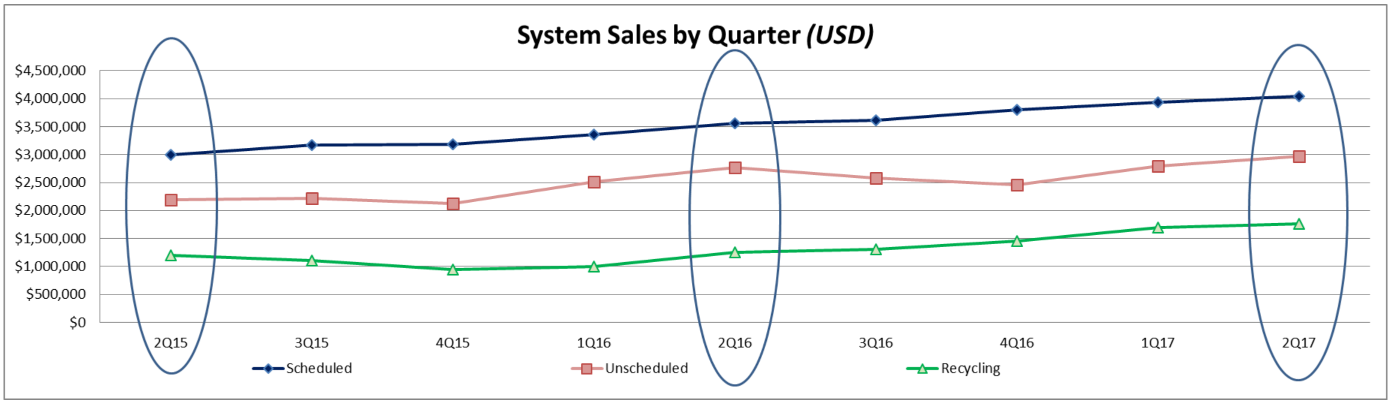
| For the six months ended June 30, | **2017** | 2016 | % Change |
|---|---|---|---|
| Total North American operating locations at period end | **29** | 28 | 4% |
| Operating territories – (US only) | **123.5** | 120.1 | 3% |
| Total system sales (USD) | **$ 17,193,077** | $ 14,445,903 | 19% |
| Same location total system sales (USD) | **$ 17,072,322** | $ 14,419,980 | 18% |
| Total system sales (CDN) | **$ 22,895,581** | $ 19,213,050 | 19% |

*System Sales Trend:*

The following chart illustrates system sales growth in USD by quarter since the second quarter of 2012.



System sales are broken into three categories, scheduled service sales, unscheduled service sales and recycling.




For the six months ended June 30, 2017, service related system sales grew by US$1,534,930, a 13% increase over the comparative 2016 period.

Scheduled sales:

Scheduled sales are defined as the revenue generated from customers with regular service that may occur on a weekly, bi-weekly, or monthly basis. Proshred sales and marketing strategies have been and continue to be focused on this particular sales category, as this provides our franchisees and corporate locations with stable and recurring cash flows. This focus resulted in continued growth in this category of 15% over the same period in 2016.

| For the six months ended June 30, | **2017** | 2016 | % Change |
|---|---|---|---|
| | **$** | $ | |
| Scheduled service sales (USD) | **7,967,921** | 6,921,043 | 15% |
| Same store scheduled service sales (USD) | **7,940,381** | 6,921,043 | 15% |

Unscheduled sales:

Unscheduled sales are defined as the revenue generated from customers who have one-time or seasonal requirements for document destruction. An example of unscheduled sales is when an accounting firm is required to destroy an abundance of confidential working papers and documents after their tax season. Unscheduled sales reached a record high of $5,768,687 growing 9% over the same period in 2016.

| For the six months ended June 30, | **2017** | 2016 | % Change |
|---|---|---|---|
| | **$** | $ | |
| Unscheduled service sales (USD) | **5,768,687** | 5,286,799 | 9% |
| Same store unscheduled service sales (USD) | **5,697,600** | 5,286,799 | 8% |

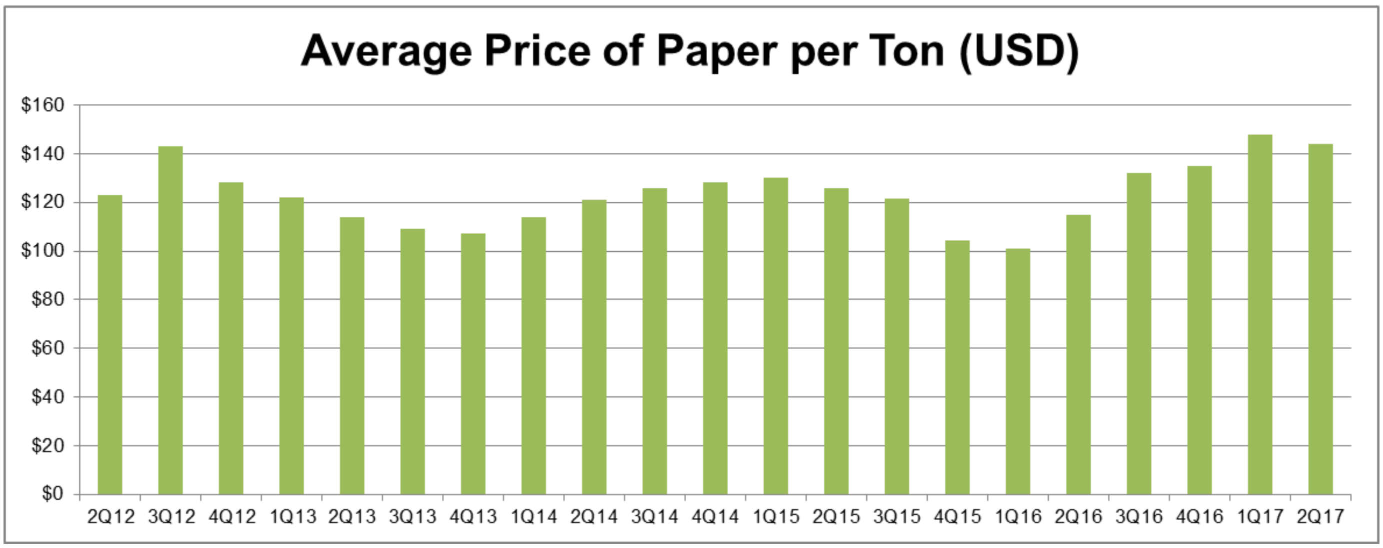
Recycling sales:

Recycling sales are defined as the revenue generated from the shredded paper and other material that is sold to various recycling companies. This sales category is driven by the price of paper, which is impacted by global supply and demand for shredded paper and the volume of paper recycled which is measured in tons.

| For the six months ended June 30, | **2017** | 2016 | % Change |
|---|---|---|---|
| | **$** | $ | |
| Recycling sales (USD) | **3,456,469** | 2,238,061 | 54% |
| Same store recycling sales (USD) | **3,434,341** | 2,238,061 | 53% |

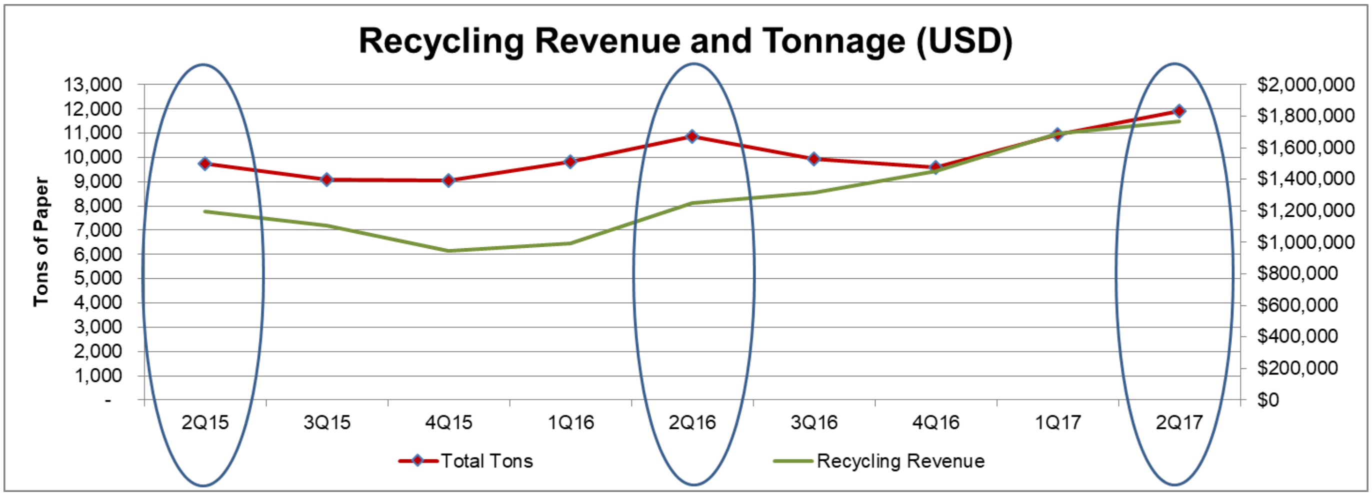
*Historical Pricing Trends:*

Over the last 12 trailing months, paper pricing in the Proshred system has steadily increased over the prior 12 trailing months as there has been a recovery in paper based commodity prices both abroad and domestically in the US. The paper pricing in the Proshred system declined slightly in Q2-2017 over Q1-2017. The average price of paper in the Proshred system was $144 per ton in Q2-2017 versus $115 per ton in Q2-2016, an increase of 26%.

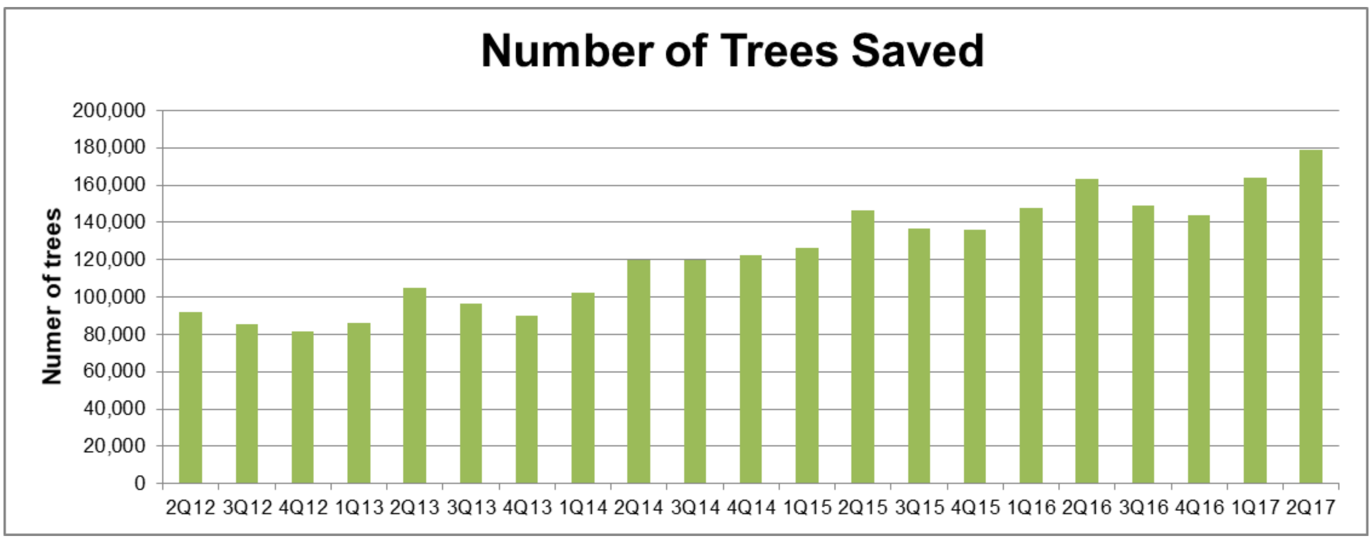


*Historical Volume of Paper:*

During Q2-2017, the system shred and recycled 10% more paper than in Q2-2016, driving recycling revenues upwards. The Proshred system shred and recycled 11,900 tons of paper during the second quarter of 2017 (10,800 – during the second quarter of 2016), which equates to 178,000 trees being saved (Q2-2016 – 163,000). (1)

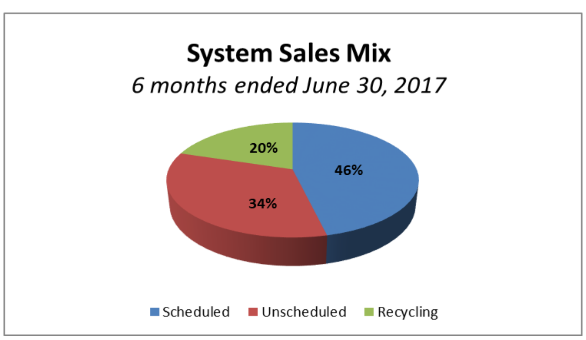


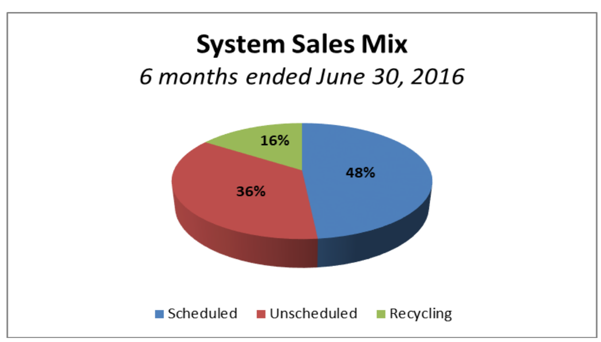

(1) The estimated amount of paper that can be produced from a tree has been conservatively estimated by management based on information taken from Conservatree.org.




(1) The estimated amount of paper that can be produced from a tree has been conservatively estimated by management based on information taken from Conservatree.org.

Mix of business:



## Franchising & Licensing

### Total Revenue

Royalties and service fees are charged for the use of the trademarks and system, franchise and license fee revenue is generated when a franchise or license is awarded and training is completed. Royalty and service fees earned in the first half of 2017 grew 15% over the first half of 2016 due to increased system sales, including scheduled, unscheduled and recycling system sales.

| For the six months ended June 30, | **2017** | 2016 | % Change |
|---|---|---|---|
| | **$** | $ | |
| Franchise and license fees | **-** | 177,836 | (100)% |
| Royalty and service fees | **1,050,734** | 911,311 | 15% |
| Total revenue | **1,050,734** | 1,088,953 | (4)% |

The Company earns all franchising and licensing related revenues in US dollars, which are translated at the average exchange rate for the period. For the six months ended June 30, 2017, total revenue denominated in US dollars was US$790,025 (six months ended June 30, 2016 – US$823,094).

### Operating Expenses

Operating expenses for the six months ended June 30, 2017 include expenses to support all Proshred locations in operations, training and initial support for pending locations, and the costs to develop new markets by way of franchising, licensing and acquisition. Also included in operating expenses are ongoing stock exchange listing and regulatory costs, professional services, occupancy costs and management salaries and benefits. During the first half of 2017, salaries increased as a result of the investments in attracting and retaining stronger senior management. In May 2017, the Company also issued stock options to members of the Board of Directors and senior management, resulting in a one-time non-cash expense of $276,320. The Company closely monitors and controls all operating expenses.

| For the six months ended June 30, | **2017** | 2016 | % Change |
|---|---|---|---|
| | **$** | $ | |
| Salaries | **573,036** | 493,951 | (16)% |
| Stock based compensation | **276,799** | 3,936 | (6932)% |
| General, administrative and marketing | **567,787** | 566,301 | 0% |
| Broker fees | **-** | 39,461 | 100% |
| Total operating expenses | **1,417,622** | 1,103,649 | (28)% |
| Total normalized operating expenses(1) | **1,140,832** | 1,103,649 | (3)% |

(1) Normalized operating expenses excludes a one-time cost related to stock based compensation expense for the issuance of options to members of the Board of Directors and senior management.

### Depreciation and Amortization – Franchising

Depreciation relates to the purchase of computer equipment and furniture at the head office. Amortization relates to the purchase of Professional Shredding Corporation ("PSC") and the Proshred franchise business in 2008.

Depreciation and amortization is as follows:

| For the six months ended June 30, | 2017 | 2016 | % Change |
|---|---|---|---|
| | $ | $ | |
| Depreciation – tangible assets | **5,314** | - | 100% |
| Amortization – intangible assets | **252,038** | 299,962 | (16)% |

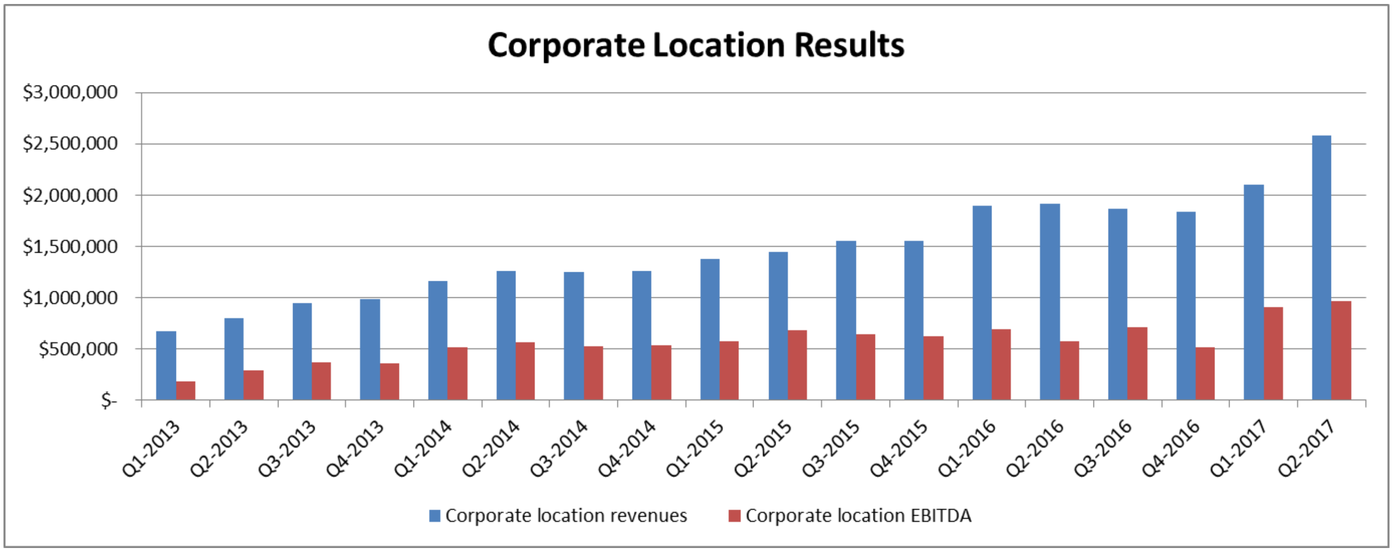
## Corporate Operations

The Company operates seven shredding locations in Syracuse, Albany, Milwaukee, New York City, Charlotte, Miami and Northern Virginia. These locations represent the Company's corporately owned locations. The Company purchased the Northern Virginia franchise from a retiring franchisee on March 31, 2017.

During the six months ended June 30, 2017, the total corporate location revenues grew by 25% over the 2016 comparative period. The Company also increased EBITDA and operating income by 35% and 29%, respectively, over the 1st half of 2016. Non-same corporate location results include the Northern Virginia results for the three months ended June 30, 2017.

| (In 000's) | Total Corporate Locations | | | Same Corporate Locations | | | Non-same Corporate Locations | |
|---|---|---|---|---|---|---|---|---|
| For the six months ended June 30, | 2017 | 2016 | % Change | 2017 | 2016 | % Change | 2017 | 2016 |
| Revenue: | $ | $ | | $ | $ | | $ | $ |
| Shredding service | **3,897** | 3,231 | 21% | **3,627** | 3,231 | 12% | **270** | - |
| Recycling | **788** | 504 | 56% | **715** | 504 | 42% | **73** | - |
| Total revenue | **4,685** | 3,735 | 25% | **4,341** | 3,735 | 16% | **343** | - |
| Operating costs | **2,812** | 2,350 | 20% | **2,539** | 2,350 | 8% | **273** | - |
| EBITDA | **1,873** | 1,385 | 35% | **1,802** | 1,385 | 30% | **70** | - |
| *% of revenue* | ***43%*** | *37%* | *6%* | ***42%*** | *37%* | *5%* | ***20%*** | - |
| Depreciation – tangible assets | **447** | 283 | 58% | **409** | 283 | 45% | **38** | - |
| Corporate operating income | **1,426** | 1,102 | 29% | **1,393** | 1,102 | 32% | **32** | - |
| *% of revenue* | ***30%*** | *30%* | *0%* | ***32%*** | *30%* | *2%* | ***9%*** | - |

Corporate location revenues and operating costs are generated in US dollars, which are translated at the average exchange rate for the period. For the six months ended June 30, 2017, corporate location revenues, denominated in US dollars were US$3,522,921 (six months ended June 30, 2016 – US$2,808,058).




Note: The Company acquired the Charlotte franchise on July 31, 2013 and began operating the Miami franchise corporately on January 1, 2014. The Company acquired the assets of Recordshred Inc. on December 31, 2015 and the Northern Virginia franchise on March 31, 2017. Corporate operating income does not include an allocation of corporate overhead.

### Amortization - intangibles

Amortization of intangible assets relates to the assets purchased in relation to the corporate locations.

Depreciation and amortization are as follows:

| For the six months ended June 30, | **2017** | 2016 | % Change |
|---|---|---|---|
| | **$** | $ | |
| Amortization – intangible assets | **237,461** | 158,032 | 50% |

## Foreign exchange

The Company has revenues and costs that are denominated in US dollars; this dependency on the US dollar typically causes foreign exchange gains when the Canadian dollar depreciates versus the US dollar. The Company has significant dollar value assets denominated in US dollars which are revalued at the exchange rate at the date of the statement of financial position, which typically results in unrealized foreign exchange gains or losses.

### Exchange rates utilized

| | 2017 | | 2016 | | | |
|---|---|---|---|---|---|---|
| As at, | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| | $ | $ | $ | $ | $ | $ |
| Balance sheet date exchange rates (CDN to USD) | **1.300** | 1.330 | 1.343 | 1.313 | 1.290 | 1.300 |
| *% change* | *(2)%* | *(1)%* | *2%* | *2%* | *(1)%* | |

| For the six months ended June 30, | 2017 | 2016 | % Change |
|---|---|---|---|
| | **$** | $ | |
| Average exchange rates for the period (CDN to USD) | **1.33** | 1.33 | 0% |

Foreign exchange (loss) gain was as follows:

| For the six months ended June 30, | 2017 | 2016 | % Change |
|---|---|---|---|
| | **$** | $ | |
| Realized foreign exchange gain | **154,526** | 366,666 | (58)% |
| Unrealized foreign exchange (loss) | **(187,045)** | (539,473) | 65% |
| Foreign exchange (loss) gain | **(32,519)** | (172,807) | (119)% |

## Interest income and expense

Interest income is derived from cash savings accounts held by the Company and by way of finance income related to the financing of franchise fees.

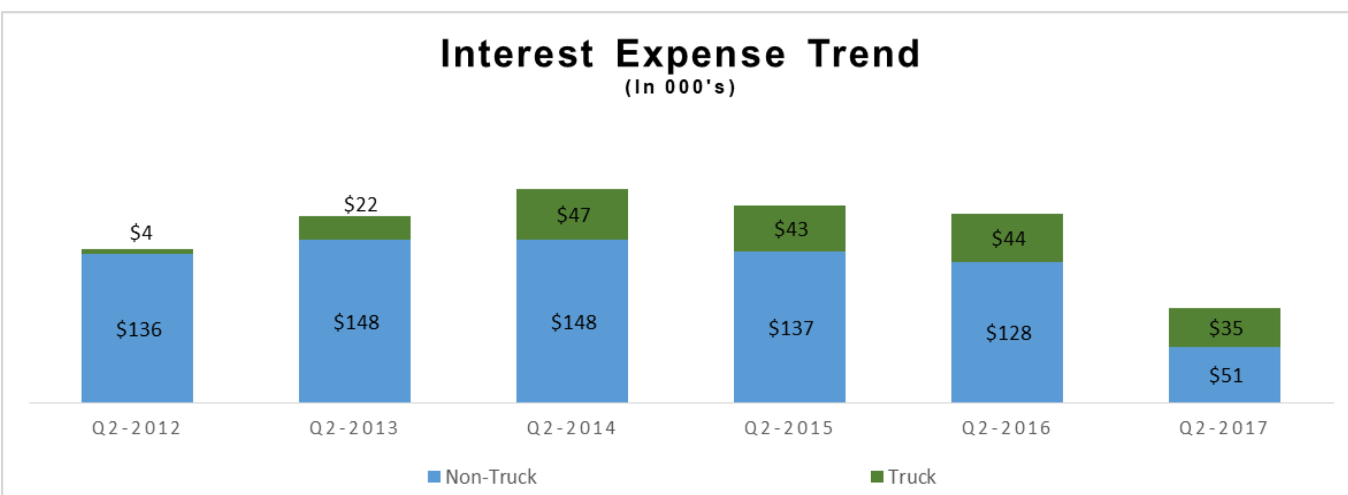
Interest expense relates to the following:

- the Company's line of credit facility, which bears interest at 10% per annum, and
- truck loan agreements, which bear interest at 5.95% to 8.0% per annum.

The Company converted the following debt to equity on January 23, 2017:

- three loan agreements, related to the Proshred Charlotte franchise, of $642,000, and
- convertible debentures of $350,000.

Interest expense decreased in the first half of 2017 in comparison to the prior 2016 period as a result of the principal repayments made on the line of credit, including a principal repayment of $3 million in February 2017.



| For the six months ended June 30, | **2017** | 2016 | % Change |
|---|---|---|---|
| | **$** | $ | |
| Interest income | **4,330** | 4,600 | (6)% |
| Interest expense | **(206,333)** | (347,086) | 41% |

## Income Tax

On March 17, 2008 the Company booked a future tax liability relating to the purchase of PSC and Proshred Franchising Corp. ("PFC"). During the six months ended June 30, 2017, the Company booked a tax expense of $51,073. The tax expense is related to withholding taxes paid in the United States. The tax expense is offset by a tax recovery primarily due to the reversal of timing differences related to the future tax liability that was recorded upon the acquisition of PSC.

## Net income

For the six months ended June 30, 2017, net income before foreign exchange and income tax increased by 27% over the prior year comparative period. Net income for the first half of 2017 increased by 141% over the first half of 2016. The growth was a result of operating income growth in the corporate locations and the decline in interest expense and foreign exchange loss.

## Reconciliation of EBITDA to Net Income

| For the six months ended June 30, | **2017** | 2016 | % Change |
|---|---|---|---|
| | **$** | $ | |
| EBITDA | **1,506,072** | 1,369,960 | 10% |
| Less: depreciation – tangible assets | **(452,219)** | (283,040) | (60)% |
| Operating income | **1,053,853** | 1,086,920 | (3)% |
| Less: amortization - intangible assets | **(489,499)** | (457,994) | (7)% |
| Less: interest expense | **(206,333)** | (347,086) | 41% |
| Add: interest income | **4,330** | 4,600 | (6)% |
| Income before foreign exchange, and income tax: | **362,351** | 286,440 | 27% |
| Foreign exchange loss | **(32,519)** | (172,807) | 81% |
| Income tax (expense) recovery | **(51,073)** | 2,052 | (2589)% |
| Net income | **278,759** | 115,685 | 141% |

## Selected Quarterly Results

| *(in CDN except where noted)* | 2017 Q2 | 2017 Q1 | 2016 Q4 | 2016 Q3 | 2016 Q2 | 2016 Q1 | 2015 Q4 | 2015 Q3 |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| **System sales (USD)** | **8,772,960** | **8,420,117** | **7,719,401** | **7,511,789** | **7,576,734** | **6,865,531** | **6,246,162** | **6,497,246** |
| **Total Revenue** | **3,101,767** | **2,634,451** | **2,357,247** | **2,418,386** | **2,475,518** | **2,348,152** | **2,105,982** | **1,974,509** |
| Franchise and license fees | - | - | - | 67,611 | 175,006 | - | 122,533 | 4,120 |
| Royalty and service fees | 522,406 | 528,328 | 481,190 | 480,039 | 457,819 | 456,128 | 434,070 | 415,832 |
| **Total revenue from franchising and licensing** | **522,406** | **528,328** | **481,190** | **547,650** | **632,825** | **456,128** | **556,603** | **419,952** |
| Operating costs(3) | (514,665) | (626,637) | (576,057) | (514,899) | (589,699) | (536,038) | (698,770) | (414,321) |
| One-time costs(2) | (276,320) | - | (148,642) | - | - | - | - | - |
| Total operating expenses | (790,985) | (626,637) | (724,699) | (514,899) | (589,699) | (536,038) | (698,770) | (414,321) |
| **Franchising and licensing EBITDA** | **(268,579)** | **(98,309)** | **(243,509)** | **32,751** | **43,126** | **(79,910)** | **(142,167)** | **5,631** |
| Depreciation – tangible assets | (2,767) | (2,547) | - | - | - | - | - | - |
| **Total operating income – Franchising & licensing** | **(271,346)** | **(100,856)** | **(243,509)** | **32,751** | **43,126** | **(79,910)** | **(142,167)** | **5,631** |
| Corporate locations revenue | 2,579,361 | 2,106,123 | 1,876,057 | 1,870,736 | 1,842,693 | 1,892,024 | 1,549,379 | 1,554,557 |
| Corporate locations operating costs(3) | (1,612,190) | (1,200,334) | (1,361,140) | (1,162,739) | (1,154,551) | (1,195,510) | (913,240) | (908,449) |
| **Corporate locations EBITDA** | **967,171** | **905,789** | **514,917** | **707,997** | **688,142** | **696,514** | **636,139** | **646,108** |
| Depreciation – tangible assets | (261,624) | (182,734) | (161,868) | (160,070) | (138,883) | (144,157) | (137,570) | (120,789) |
| **Total operating income – corporate** | **705,547** | **723,055** | **353,049** | **547,927** | **549,259** | **552,357** | **498,569** | **525,319** |
| **Consolidated EBITDA** | **698,592** | **807,480** | **271,408** | **740,748** | **753,356** | **616,604** | **493,972** | **651,739** |
| **Normalized EBITDA** | **974,912** | **807,480** | **420,050** | **740,748** | **753,356** | **616,604** | **493,972** | **651,739** |
| **Normalized Operating Income** | **710,521** | **619,652** | **248,769** | **580,678** | **614,473** | **472,447** | **356,402** | **530,950** |
| Income (loss) before taxes from continuing operations | (60,640) | 390,472 | (182,167) | 104,823 | 191,569 | (77,936) | 255,559 | 347,399 |
| Income (loss) attributable to owners of the parent | (108,111) | 386,870 | (17,386) | 75,589 | 188,267 | (72,582) | (112,571) | 363,260 |
| Basic and diluted net income (loss) per share | (.00) | .00 | (.00) | .00 | .01 | (.00) | (.00) | .01 |

(1) Certain amounts have been reclassified to conform to the current period's presentation.

(2) The one-time cost incurred in Q2-2017 relates to stock based compensation expense for the issuance of options to members of the Board of Directors and senior management.

(3) Corporate overhead is included under franchising & licensing operating costs and not allocated to the corporate locations.

## Q2 Financial Highlights

(in 000's except as noted)

| | **2017** | 2016 | % change |
|---|---|---|---|
| | **$** | $ | |
| **System Sales Performance – in US Currency** | | | |
| System sales | **8,773** | 7,580 | *16%* |
| *Percentage scheduled* | ***46%*** | *47%* | |
| System sales – same location | **8,721** | 7,553 | *15%* |
| *Percentage scheduled* | ***46%*** | *47%* | |
| **Operating Performance – in Canadian Currency** | | | |
| *Consolidated results:* | | | |
| Revenue | **3,102** | 2,476 | *25%* |
| EBITDA | **699** | 688 | *2%* |
| One-time costs(1) | **276** | - | *(100)%* |
| Normalized EBITDA | **975** | 688 | *42%* |
| Operating Income | **434** | 549 | *(21)%* |
| *As a percentage of revenue* | ***14%*** | *22%* | |
| Normalized Operating Income(1) | **710** | 549 | *29%* |
| *As a percentage of revenue* | ***23%*** | *22%* | |
| *Corporate location results:* | | | |
| Revenue | **2,579** | 1,843 | *40%* |
| EBITDA | **967** | 688 | *41%* |
| Operating income | **705** | 549 | *28%* |
| *As a percentage of revenue* | ***30%*** | *30%* | |

(1) Excludes a one-time cost related to stock based compensation expense for the issuance of options to members of the Board of Directors and senior management.

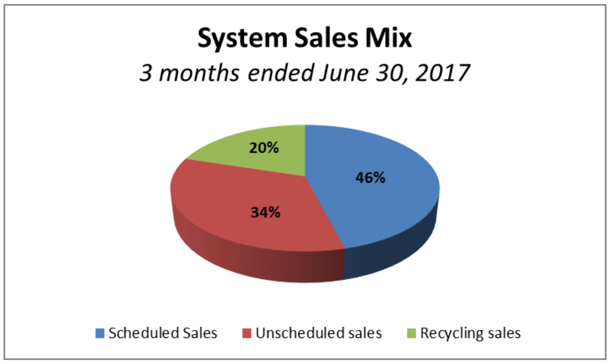
## Q2 System Sales Results

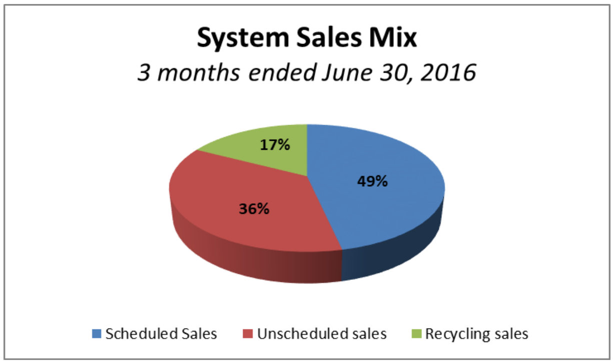
During the second quarter, scheduled sales reached a record high of US$4,036,991 and unscheduled sales were a record high of US$2,971,384. Service related system sales, scheduled and unscheduled, were US$7,008,375 for the second quarter of 2017, growing by 11% over the second quarter of 2016.

During the three months ended June 30, 2017, recycling sales increased by 41% over the same period in 2016. This was a result of the increases in the price of paper and tons of paper recycled. The average price of paper in the Proshred system was US$144 per ton, versus US$115 per ton in the second quarter of 2016, an increase of 26%. The Proshred system shred and recycled 11,900 tons of paper during the second quarter of 2017 (second quarter of 2016 – 11,000), which equates to 179,000 trees being saved (second quarter of 2016 – 163,000).

| For the 3 months ended June 30, | **2017** | 2016 | % Change |
|---|---|---|---|
| Total locations | **29** | 28 | *4%* |
| Operating territories – (US only) | **123.5** | 120.1 | 5% |
| Total system sales (USD) | **$8,772,960** | $ 7,579,784 | 16% |
| Total same store system sales (USD) | **$8,721,524** | $ 7,553,861 | 15% |
| Total system sales (CDN) | **$11,755,766** | $9,789,919 | 20% |
| Scheduled service sales (USD) | **$4,036,991** | $3,566,304 | 13% |
| Same store scheduled service sales (USD) | **$4,024,821** | $3,566,304 | 13% |
| Unscheduled service sales (USD) | **$2,971,384** | $2,766,141 | 7% |
| Same store unscheduled service sales (USD) | **$2,942,272** | $2,766,141 | 6% |
| Recycling sales (USD) | **$1,764,585** | $1,247,339 | 41% |
| Same store recycling sales (USD) | **$1,754,431** | $1,247,339 | 41% |

*System Sales Mix:*



## Q2 Franchising and Licensing Results

During the second quarter of 2017, the Company's royalties grew by 14% as a result of increased system sales. For the three months ended June 30, 2017, total franchise revenue denominated in US dollars was US$392,786 (three months ended June 30, 2016 – US$496,403).

| For the 3 months ended June 30, | **2017** | 2016 | % Change |
|---|---|---|---|
| | **$** | $ | |
| Franchise and license fees | **-** | 175,006 | (100)% |
| Royalty and service fees | **522,406** | 457,819 | 14% |
| Total franchise revenue | **522,406** | 632,825 | (17)% |
| Salaries | **232,336** | 259,172 | 10% |
| Stock based compensation | **276,320** | 3,292 | (8294)% |
| General, administrative and marketing | **282,329** | 287,774 | (2)% |
| Broker fees | **-** | 39,461 | (100)% |
| Total operating expenses | **790,985** | 589,699 | 34% |
| Franchising and licensing EBITDA | **(268,579)** | 43,126 | (723)% |
| Normalized franchising and licensing EBITDA | **7,741** | 43,126 | (82)% |
| Depreciation – tangible assets | **2,767** | - | (100)% |

In May 2017, the Company issued stock options to members of the Board of Directors and senior management, resulting in a one-time non-cash expense of $276,320. The Company closely monitors and controls all operating expenses.

## Q2 Corporate location results

During the three months ended June 30, 2017, the corporate location revenues grew by 40% and EBITDA grew by 41% over the same comparative prior year period. Same store corporate locations grew sales by 21% and EBITDA by 30% over Q2-2016. Non-same corporate locations results include the Northern Virginia for the three months ended June 30, 2017.

For the three months ended June 30, 2017, corporate location revenues, denominated in US dollars were US$1,939,369 (three months ended June 30, 2016 - US$1,385,484).

| (In 000's) | Total Corporate Locations | | | Same Corporate Locations | | | Non-same Corporate Locations | |
|---|---|---|---|---|---|---|---|---|
| For the 3 months ended June 30, | **2017** | 2016 | % Change | **2017** | 2016 | % Change | **2017** | 2016 |
| Revenue: | **$** | $ | | **$** | $ | | **$** | $ |
| Shredding service | **2,147** | 1,588 | 35% | **1,877** | 1,588 | 18% | **270** | - |
| Recycling | **432** | 255 | 69% | **359** | 255 | 41% | **73** | - |
| Total revenue | **2,579** | 1,843 | 40% | **2,236** | 1,843 | 21% | **343** | - |
| Operating costs | **1,612** | 1,155 | 40% | **1,339** | 1,155 | 16% | **273** | - |
| EBITDA | **967** | 688 | 41% | **897** | 688 | 30% | **70** | - |
| *% of revenue* | ***37%*** | *37%* | *0%* | ***40%*** | *37%* | *3%* | ***20%*** | - |
| Depreciation - equipment | **262** | 139 | 90% | **224** | 139 | 63% | **38** | - |
| Corporate operating income | **705** | 549 | 28% | **673** | 549 | 22% | **32** | - |
| *% of revenue* | ***27%*** | *30%* | *(3)%* | ***30%*** | *30%* | *0%* | ***9%*** | - |

## Q2 Other Income and Expenses

| | **2017** | 2016 | % Change |
|---|---|---|---|
| | **$** | $ | |
| Interest Income | **2,019** | 2,044 | (1)% |
| Interest expense | **(86,049)** | (172,490) | 50% |
| Amortization – intangible assets | **258,575** | 223,908 | (15)% |

In the second quarter of 2017, interest expense declined by 50% over the prior year comparative period as a result of the principal repayments made on the line of credit. Amortization of intangible assets increased as a result of the acquisition of the Northern Virginia franchise on March 31, 2017.

## Financial Condition, Capital Resources and Liquidity

The Company closely monitors its cash balances and cash flows generated from operations to meet its requirements.

| As at June 30 and December 31, | **2017** | 2016 | *% Change* |
|---|---|---|---|
| Working capital (Normalized)(1) | **$957,936** | $115,641 | *273%* |
| Total assets | **$11,801,223** | $10,001,400 | *17%* |
| Total liabilities | **$5,774,671** | $9,482,882 | *38%* |
| Debt to total assets ratio | **0.49** | 0.95 | *48%* |
| Normalized Fixed Charge Coverage ratio – rolling 12 months | **1.90** | 1.18 | *61%* |
| Normalized Total Funded Debt to EBITDA ratio – rolling 12 months | **1.59** | 3.39 | *53%* |

(1) As at December 31, 2016, working capital has been increased by $4.5M for this calculation as the Line of Credit that was due to expire on November 27, 2017 was extended by 2 years shortly after year end. Under IFRS the Line of Credit was fully classified as current.

The total assets of the Company have increased when compared to December 31, 2016 primarily as a result of the acquisition of the Proshred Northern Virginia business. The total liabilities of the Company have decreased over the prior year as a result of a principal repayment of $3 million on the Company's line of credit. The Company has $4.06 million available for use on its line of credit as of March 31, 2017.

As a result of the $3 million principal repayment made, the Company's rolling twelve-month fixed charge coverage has increased by 61% and its total funded debt to EBITDA ratio has decreased by 53% since December 31, 2016. The Company's working capital has improved by $842,000 since December 31, 2016. Management will continue to balance investment in human resources, trucks and technology with continued reduction and management of its debt balances.

*Line of Credit*

The Company has a line of credit with a related party entity (see note 18) for a maximum amount of $6.03 million. The line of credit is repayable on November 27, 2019, bearing interest at a fixed rate of 10% per annum, and secured by a general security agreement over the Company's assets.

Subsequent to quarter-end, on July 28, 2017, the Company secured up to $4 million of senior credit facilities from Bank of Montreal ("BMO"). These facilities include:

(3) An operating demand loan of $1 million bearing interest at BMO's prime rate plus 1.7% and;
(4) A non-revolving term loan in the amount of $3 million with an amortization of 60 months from the date of drawdown, bearing interest at BMO's prime rate plus 2.0%.

The Company used $2 million of the BMO term loan to repay in full the outstanding balance on the line of credit.

The Company also replaced the original related party line of credit facility with a new line of credit for a maximum amount of $2 million for a five year term. The new line of credit bears interest at a fixed rate of 10% per annum.

At June 30, 2017, current liabilities of $2,276,778 (December 31, 2016 - $6,815,122) are due to be settled within one year from the balance sheet date.

The Company has the following operating lease commitments:

| | **$** |
|---|---|
| Less than 1 year | 285,588 |
| Between 1 and 5 years | 716,979 |
| Over 5 years | 35,978 |
| **Total** | 1,038,545 |

Based on overall cash generation capacity and financial position, while there can be no assurance, management believes the Company will be able to meet financial obligations as they come due over the next twelve months.

The Company did not declare any dividends during the year.

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

| | Common stock | |
|---|---|---|
| | **Number** | **$** |
| **June 30, 2017(1)** | 46,902,587 | 13,891,138 |
| **December 31, 2016** | 28,939,658 | 8,590,995 |

(1) On January 23, 2017, the Company closed its private placements and debt conversion, issuing 17,962,929 common shares.

## Capital Assets

| As at, | **June 30, 2017** | December 31, 2016 | % Change |
|---|---|---|---|
| | **$** | $ | |
| Net book value | **4,337,017** | 3,222,547 | 35% |

During the three months ended June 30, 2017, capital assets (not including intangible assets) increased as a result of the acquisition of the Proshred Northern Virginia franchise on March 31, 2017.

## Off-Balance Sheet Financing Arrangements

The Company has no off-balance sheet financing arrangements.

## Transactions with Related Parties

A Director of the Company is the owner of the Tampa Bay, Florida Proshred franchise. There is an accounts receivable balance of $533 due from this franchise at June 30, 2017 (December 31, 2016 - $580). During the six months ended June 30, 2017, the Company earned royalties, service fees and interest income of $65,459 (during the six months ended June 30, 2016 - $53,031) from this franchise.

The Company has a line of credit facility with a related party entity, the Company's largest shareholder, for a maximum of $6.03 million, repayable on November 27, 2019, bearing interest at a fixed rate of 10% per annum. Subsequent to quarter-end, the Company used $2 million of the BMO term loan to repay in full the outstanding balance on the related party line of credit.

The Company also replaced the original related party line of credit facility with a new line of credit for a maximum amount of $2 million for a five year term. The new line of credit bears interest at a fixed rate of 10% per annum.

On December 31, 2012, the Company obtained equity and debt funding, directly or indirectly, from certain members of the Company's Board of Director's. The Company issued $375,000 convertible, unsecured subordinated, debentures. The debentures have a five year term and a coupon of 7.5% interest per annum payable annually. The debenture holders may defer interest otherwise due and payable until the next interest payment date, in which case the deferred interest payment will accrue additional interest at 7.5% per annum. Each $1,000 principal amount of debenture entitles the holder to convert to approximately 3,333 common shares at a conversion price of $0.30 per share. On January 23, 2017, the convertible debentures were converted to common shares.

Included in selling, general and administrative expenses for the six months ended June 30, 2017 are insurance premium amounts of $15,103 (for the six months ended June 30, 2016 - $4,411) paid to an insurance brokerage firm managed by a Director of the Company.

In order to finance the acquisition of the Charlotte location, the Company obtained four loans from certain members of the Company's Board of Director's. On January 23, 2017, the Company converted three of the loans into equity at a price of $0.30 per common share. The remaining loan was extinguished on July 28, 2017.

## Risks and Uncertainties

Please refer to the Redishred 2016 Annual Report for a listing of all risks and uncertainties. There have been no material changes relating to the Company's risks and uncertainties since December 31, 2016, the Company's fiscal year-end.

## Use of estimates and judgements

The preparation of the financial report in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from those estimates and assumptions. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The significant areas of judgements, estimates and assumptions are set out in Note 4 of the consolidated financial statements found in Redishred's 2016 Annual Report. During the most recent interim period, there have been no changes in the Company's accounting policies or procedures and other processes that have materially affected, or are reasonably likely to materially affect, the Company's accounting judgements, estimates and assumptions.

## Investor Relations Activities

The Company does not have any investor relations arrangements.

## Share Data

The Company's authorized share capital is unlimited common shares without par value. As at June 30, 2017, there were 47,082,587 issued and outstanding common shares and 1,693,000 options to acquire common shares. During the six months ended June 30, 2017, 1,405,000 stock options were exercised (during the six months ended June 30, 2016 – nil). There were 718,000 stock options granted during the six months ended June 30, 2017 (for the six months ended June 30, 2016 – 25,000). For the six months ended June 30, 2017, the stock based compensation expense, amounted to $276,799 (for the six months ended June 30, 2016 – $3,936).

## Subsequent events

On July 28, 2017, the Company secured up to $4 million of senior credit facilities from Bank of Montreal ("BMO"). These facilities include:

1. An operating demand loan of $1 million bearing interest at BMO's prime rate plus 1.7% and;
2. A non-revolving term loan in the amount of $3 million with an amortization of 60 months from the date of drawdown, bearing interest at BMO's prime rate plus 2.0%.

The Company used $2 million of the BMO term loan to repay in full the outstanding balance on the related party line of credit. The Company also replaced the original related party line of credit facility with a new line of credit for a maximum amount of $2 million for a five year term. The new line of credit bears interest at a fixed rate of 10% per annum.

Dated: August 25, 2017