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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 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 audited consolidated financial statements for the year ended December 31, 2016 and 2015, 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](http://www.sedar.com). The discussions in this MD&A are based on information available as at April 26, 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 exchange rate fluctuations between the US and Canadian dollar,
  - i. 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 2016 and 2015 (96% of the territories serviced are same locations as of December 31, 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 non-capitalized financing costs as a result of the financing process that commenced in the fourth quarter, accounting and consulting costs related to the corporate structure and stock based compensation expense for the issuance of options to technical advisors.
- **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.
- **Normalized operating income** is defined as consolidated operating income excluding one-time costs that relate to non-capitalized financing costs as a result of the financing process that commenced in the fourth quarter, accounting and consulting costs related to the corporate structure and stock based compensation expense for the issuance of options to technical advisors.
- **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.
- **Return on invested capital** is defined as the total investment made to acquire business assets regardless of capital source.
- **Normalized working capital** is defined as working capital reduced by the line of credit that was due to expire on November 27, 2017 and extended by 2 years after year-end, in February 2017.

### **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. 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. Management is focused on increasing this ratio, as generally, the higher the fixed charge coverage ratio, the lower the credit risk.
6. 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. 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 years ended December 31,	2016	2015	% change
<b>System Sales Performance – in US Currency</b>			
Total locations	36	34	6%
System sales	\$29,673	\$24,883	19%
Percentage scheduled	48%	49%	
System sales – same location	\$29,498	\$24,726	19%
Percentage scheduled	48%	49%	
<b>Consolidated Operating Performance – in Canadian Currency</b>			
Revenue	\$9,599	\$7,678	25%
EBITDA	\$2,382	\$2,318	3%
Normalized EBITDA <sup>(1)</sup>	\$2,530	\$2,318	9%
Operating Income	\$1,768	\$1,820	(3)%
As a percentage of revenue	18%	24%	
Normalized Operating Income <sup>(1)</sup>	\$1,916	\$1,820	5%
As a percentage of revenue	20%	24%	
Normalized Operating Income per share fully diluted <sup>(1)</sup>	\$0.066	\$0.061	8%
<b>Corporate Location Performance – in Canadian Currency</b>			
Revenue	\$7,481	\$5,921	26%
Revenue (Not including acquired revenue)	\$6,739	\$5,921	14%
EBITDA	\$2,608	\$2,537	3%
Operating income	\$2,003	\$2,038	(2)%
As a percentage of revenue	27%	35%	
As at December 31,	2016	2015	% change
<b>Capital Management – in Canadian Currency</b>			
Working capital (Normalized) <sup>(2)</sup>	\$116	\$22	427%
Debt to total assets ratio	0.95	0.95	0%
Fixed Charge Coverage ratio – rolling 12 months	1.18	1.36	(13)%
Total Funded Debt to EBITDA ratio – rolling 12 months	3.39	3.52	(4)%

(1) Excludes one-time costs that relate to non-capitalized financing costs as a result of the financing process that commenced in the fourth quarter, accounting and consulting costs related to the corporate structure and stock based compensation expense for the issuance of options to technical advisors.

(2) 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.

## Summary of 2016 Results and Operations

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

*System Sales:* Redishred achieved 19% growth in total and same location system sales during 2016 versus 2015. System sales increased due to the Company's continued focus on providing recurring scheduled service to small and medium sized enterprise clients as well as by continued investment into marketing initiatives designed to capture one-time unscheduled revenue.

*Royalties:* As a result of the increase in system sales, royalty revenues were up by 17% year over year.

*Corporate Locations:* Our corporate location revenues grew by 26% during 2016 versus in 2015. When adjusted for \$742,765 in acquired revenue, the corporate locations yielded 14% organic sales growth.

### ***Franchise Activity contributes to Short Term and Long Term Franchise Revenue Growth***

In 2016, new franchise awards significantly increased over 2015. New franchise fees in 2016 equaled \$238,000 versus \$156,000 in 2015. The new locations have contributed to short term revenue growth by way of new franchise fees and will lead to future growth in royalty revenue while concurrently expanding the Company's footprint in the United States. New franchisees have been attracted to the Company's improved financial position both at the franchisor level and at the unit franchisee level.

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

During 2016, corporate location revenue has grown 26% over 2015, while corporate location operating income declined by 4% over the same period in 2015 as the Company invested in the following areas:

- (1) enhancing corporate location management with a view to driving increased revenue and enhanced efficiency allowing for sustainable growth in the longer term;
- (2) the centralization of the inside sales functions in Mississauga, Ontario with a view to enhancing sales performance and allowing for scalability as new acquisitions are added, and
- (3) the centralization of the invoicing and accounts receivables team in Mississauga, Ontario, which will contribute to shorter accounts receivable cycles and further enhance scalability as the Company conducts further acquisitions.

The centralization of processes such as inside sales and administration functions was initiated to allow for increased cash flow margins as the Company executes on its acquisition plans in 2017 and beyond. During the second half of 2016, the Company initiated the transitioning of human resources from the local branches to the Mississauga head office which caused some duplication in tasks and costs that will ensure a smooth transition of these functions. Management believes that this investment will allow for enhanced sales, economies of scale and cost savings to commence in the second quarter of 2017. The Company also made continued investments in replacing and refurbishing older trucks in 2016 in order to maximize truck utilization and ensure that client service standards are maintained at the highest possible levels.

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

Over the last twenty-four months, the Company has used a significant portion of its excess cash flow to reduce the amount owing on its line of credit. During the year ended December 31, 2016 the Company has paid down its line of credit by \$500,000 (2015 - \$250,000) and over the last twenty-four months by \$750,000. As a result of this, the Company's rolling twelve-month fixed charge coverage ratio has decreased by 13% and its total funded debt to EBITDA ratio has decreased by 4% since December 31, 2015. The Company's normalized working capital has improved to \$116,000 as at December 31, 2016 when compared to December 31, 2015 which was \$22,000. Management will continue to balance investment in human resources, trucks and technology with continued management of its debt balances.

### ***Investing now for Long-Term Sustainability***

In 2016, the Company's senior management has:

1. Invested in attracting and retaining stronger senior management and in particular sales and marketing resources with a view to supporting higher growth in all locations in the short and medium term.
2. Invested in centralizing processes such as inside sales and the accounts receivables functions with the view to gaining economies of scale and cost savings in light of the Company's acquisition program.
3. Continued to invest in modernizing its corporate location truck fleet with a view to maximizing client service standards and reducing costly repairs and downtime.

The investments have been funded primarily through current operating cash flows while simultaneously reducing the Company's most expensive debt class by \$500,000 in 2016. The Company's senior management believes these investments will yield stronger cash generation in 2017 and beyond.

### **Business Overview**

Redishred Capital Corp., headquartered in Mississauga, Ontario, Canada 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 2016 the Company managed \$29.6 million USD in System Sales (\$22.2 million USD through franchised/licensed locations and \$7.4 million USD through the corporately owned operations).

The Company's strategy is to:

1. Maximize organic 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.

Redishred 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. As of December 31, 2016, there were 29 operating Proshred locations in the United States servicing 31 metropolitan markets.

Of the 29 operating locations, 23 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 23 franchised locations.

The Company also operates 6 Proshred locations directly, including Syracuse, Albany, Milwaukee, New York City, Charlotte and Miami. These corporate locations generate shredding service revenue and recycling revenue as well as incur costs related to servicing customers, marketing, salaries and administration. Subsequent to year-end, on March 31, 2017, the Company purchased its 7<sup>th</sup> corporate location - Proshred Northern Virginia from a retiring franchisee.

As of December 31, 2016, the Company also has one international master license to operate in the Middle East<sup>1</sup>. There are Proshred locations in operation in the Qatar, the UAE, Saudi Arabia, Lebanon and Oman.

<sup>1</sup> 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.

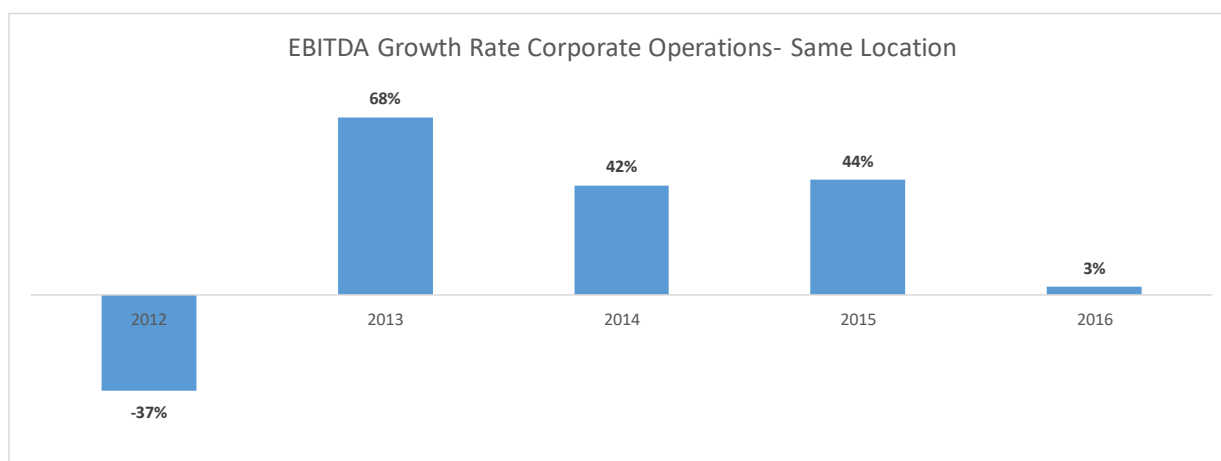
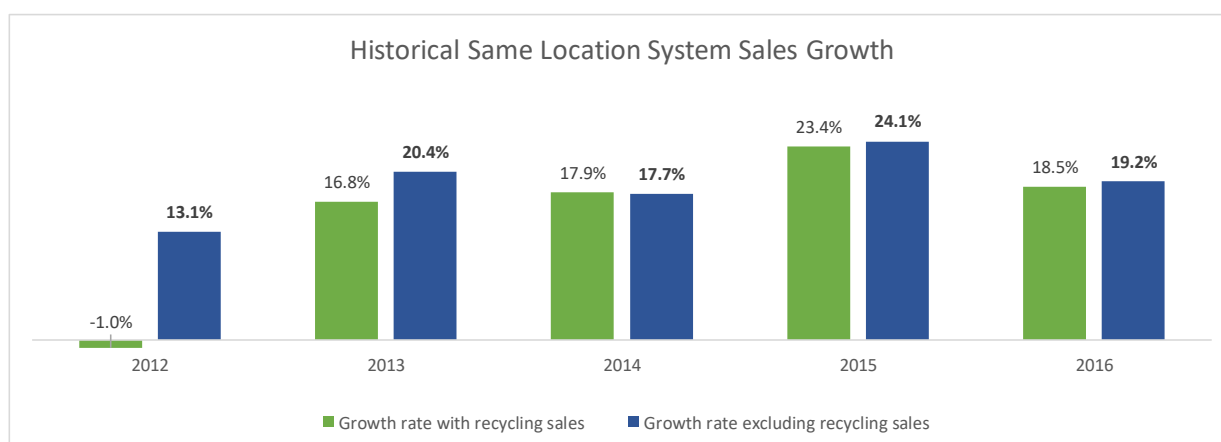
## **Business Strategy**

### **1. Maximize Same Location Revenue and Earnings**

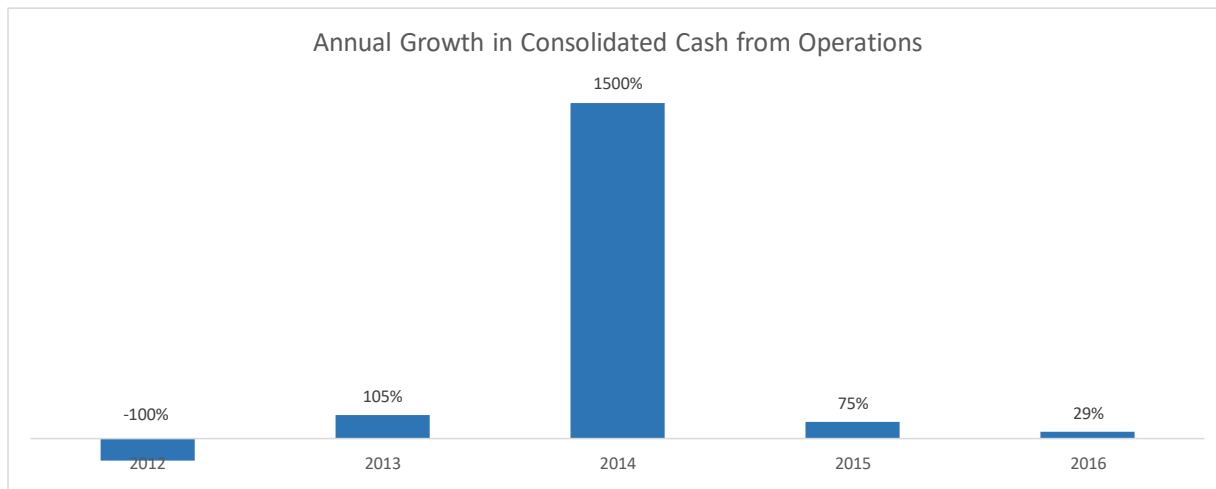
Management will focus on three key areas to drive same location revenue and earnings:

- (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 annual average of 18.9% increase in same location system revenue (excluding recycling revenue), and an annual average of 24.3% increase in same location corporate store EBITDA. This has led to continued annual increases in consolidated cash flows from operations. As noted above, management has initiated a number of operational and resource investments with a view to creating sustainable and enhanced EBITDA and Cash Flow growth in 2017 and beyond.







Commencing in 2014, the Company realized significant growth in consolidated cash from operations as a result of the following:

- (1) the Company purchased the Charlotte business on July 31, 2013;
- (2) on January 1, 2014 the Company began operating the Miami location directly as a corporate location, and
- (3) the Company's franchisees that commenced in 2012 and 2013 began to scale their business from one truck to multiple trucks driving royalties higher.

## **2. 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:

<b>Franchised Location</b>	<b>Markets Served</b>	<b>Operating Since</b>
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 Served	Operating Since <sup>(1)</sup>
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, Bergen 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 (Corporately operated as of March 31, 2017)	Washington, DC suburbs including Arlington, Alexandria, Tysons, Reston and Dulles	July 2008

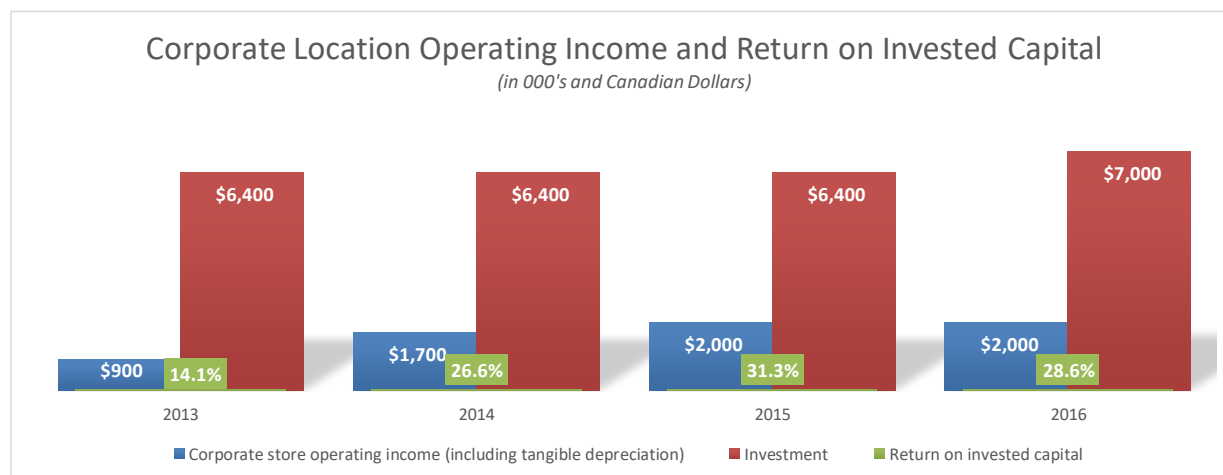
(1) Syracuse has been corporately operated since May 1, 2010; Albany has been corporately operated since July 1, 2010; Milwaukee has been corporately operated since January 1, 2011 and New York City has been corporately operated since January 1, 2012. The Charlotte, NC location has been corporately operated 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.

### 3. Driving Depth in existing Corporate Markets

With a strong presence in New York State, Western North Carolina and Florida, and as of March 31, 2017, the Northern Virginia market, 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 better truck operating costs.
3. Minimize risk of client failure by having increased access to trucks in close by markets.
4. Maximize the utilization of centralized services in our Toronto head office.

Since 2013 when the Company purchased its Charlotte, NC location, the six corporate locations have generated returns of just under 30% on invested capital.



**REDISHRED CAPITAL CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2016**

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On December 31, 2015 the Company conducted a tuck-in acquisition in the South Florida market. Even with one-time transition and integration costs during the first year of ownership, the acquisition produced the following outcomes:

**South Florida Tuck-in results for 2016:** ***In 000's***

Operating income	\$164
Normalized operating income <sup>(1)</sup>	\$205
Invested Capital	\$600
Return on invested capital	34.0%

(1) Normalized operating income excludes a one-time consulting fee paid to the prior owners of \$41,000 during 2016.

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## Performance Compared to 2016 Targets

Growth of System Sales:	
2016 Target	System sales growth of 10% to \$27.4M USD.
2016 Performance	<p>Target exceeded</p> <p>Redishred's system sales grew by 19% over 2015, achieving \$29.6M.</p> <p>System sales growth was driven by continued focus on service related shredding sales. Scheduled sales grew by 18% and unscheduled sales grew by 22% over 2015.</p>
Development by way of Franchising and Acquisitions:	
2016 Target	Award at least four new franchise locations and conduct one acquisition.
2016 Performance	<p>Target not achieved</p> <p>Redishred awarded three new franchised locations<sup>(1)</sup>, of which two commenced operations in 2016 - Orlando, FL and St. Louis, MO.</p>
Company EBITDA:	
2016 Target	Achieve \$2.8M CAD in EBITDA from operations.
2016 Performance	<p>Redishred attained \$2.5M in EBITDA after one-time costs, versus \$2.3M in 2015.</p> <p>In anticipation of increased acquisition activities to be conducted in 2017 and beyond, management invested funds into three areas, (1) stronger branch management, (2) centralization of inside sales and billings, and (3) enhanced marketing and operational senior management.</p> <p>Management believes these investments will help drive enhanced cash flows in 2017 and beyond as the Company launches its acquisition program.</p>

(1) The Orlando location was awarded to the Tampa Bay franchisee. The Jacksonville franchisee has elected not to proceed due to personal reasons. During the twelve months ended December 31, 2016, the Company recognized non-refundable franchise fees for all three locations.

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## 2017 and Longer-term Targets

(In Canadian Dollars except where noted)

### Growth of Same Location Service System Sales<sup>(1)</sup>:

<b>2017 Target</b>	Growth of 12% to \$27.5M USD.
<b>Longer-term target</b>	Growth between 8% and 10% per annum.

### Consolidated EBITDA from existing operations:

<b>2017 Target</b>	Attain EBITDA of \$2.8M from existing locations, growing by 18% over 2016.
<b>Longer-term target</b>	Attain EBITDA growth of 5% to 10% from existing locations.

### Consolidated Operating Income from existing operations<sup>(2)</sup>:

<b>2017 Target</b>	At least \$2.0M.
<b>Longer-term target</b>	Grow existing Operating Income by 10% to 15% per annum.

### Expand by way of Accretive Acquisitions:

<b>2017 Target</b>	Conduct between \$3M and \$4M of acquisitions.
<b>Longer-term target</b>	Increase the Corporately operated portfolio from 6 to 12 locations by 2020.

### Franchise Development:

<b>2017 Target</b>	Award between two and four new franchised locations per annum.
<b>Longer-term target</b>	Continue to add a minimum of 2 new franchised locations per annum.

(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.

(3) Acquisitions may include tuck-in acquisitions within existing corporate locations. These would not be considered as a net new location.

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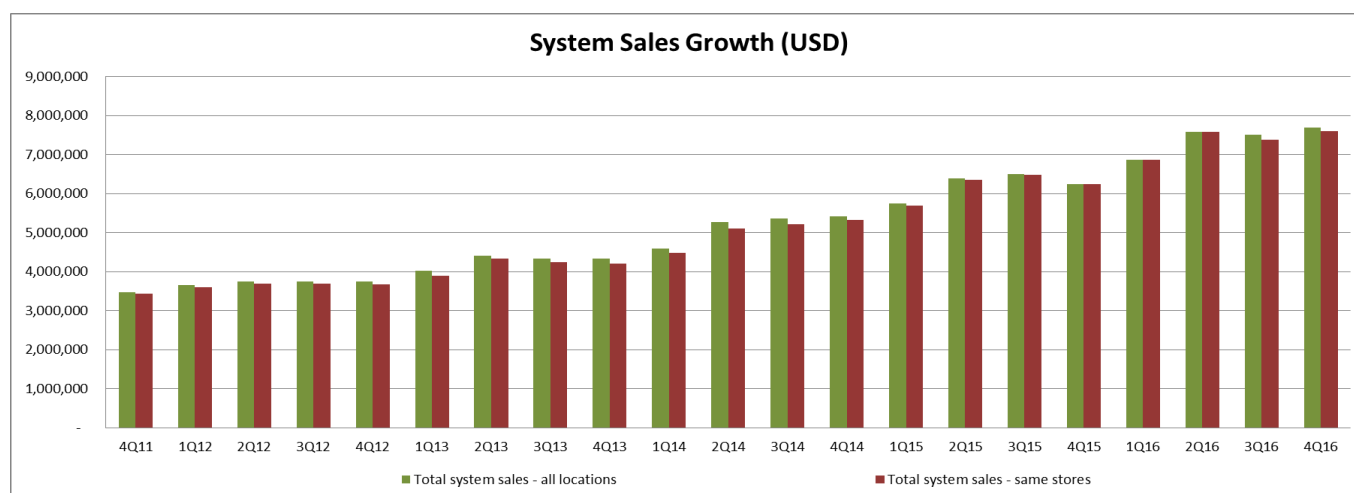
## System Sales

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 years ended December 31,	2016	2015	% Change
Total operating locations at period end; US and International	36	34	6%
Operating territories – (US only)	123.5	117.4	5%
Total system sales (USD)	\$ 29,673,455	\$ 24,883,675	19%
Same location total system sales (USD)	\$ 29,498,214	\$24,726,692	19%
Total system sales (CDN)	\$ 39,326,230	\$ 31,826,219	24%

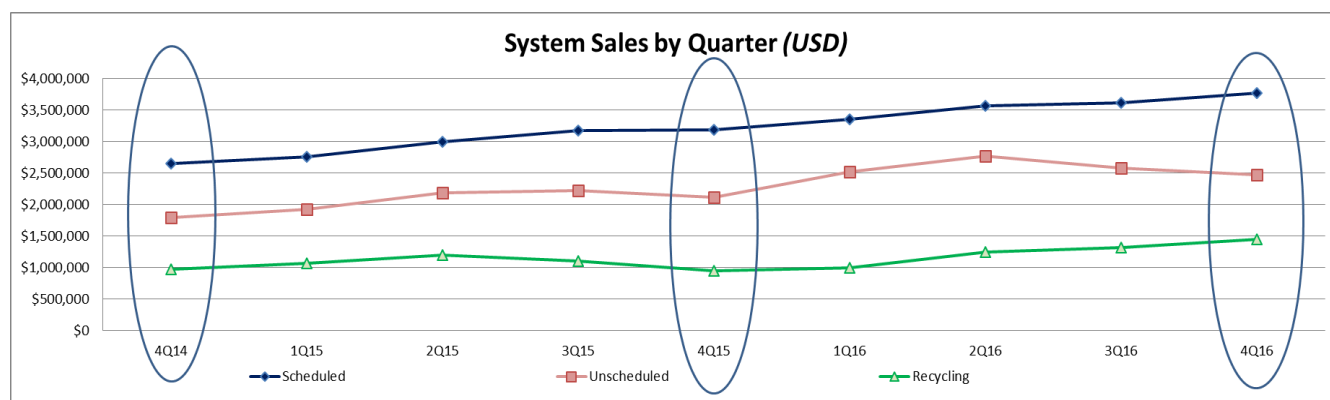
### System Sales Trend:

The following chart illustrates system sales growth in USD by quarter since the 4<sup>th</sup> quarter of 2011.



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

**REDISHRED CAPITAL CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2016**



For the year ended December 31, 2016, service related system sales grew by US\$4,102,170, a 20% increase over the comparative 2015 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 18% over 2015.

For the years ended December 31,	2016	2015	% Change
	\$	\$	
Scheduled service sales (USD)	<b>14,340,536</b>	12,115,534	18%
Same store scheduled service sales (USD)	<b>14,298,096</b>	12,115,534	18%

**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 grew 22% over 2015.

For the years ended December 31,	2016	2015	% Change
	\$	\$	
Unscheduled service sales (USD)	<b>10,330,072</b>	8,452,904	22%
Same store unscheduled service sales (USD)	<b>10,221,558</b>	8,452,904	21%



**REDISHRED CAPITAL CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016**

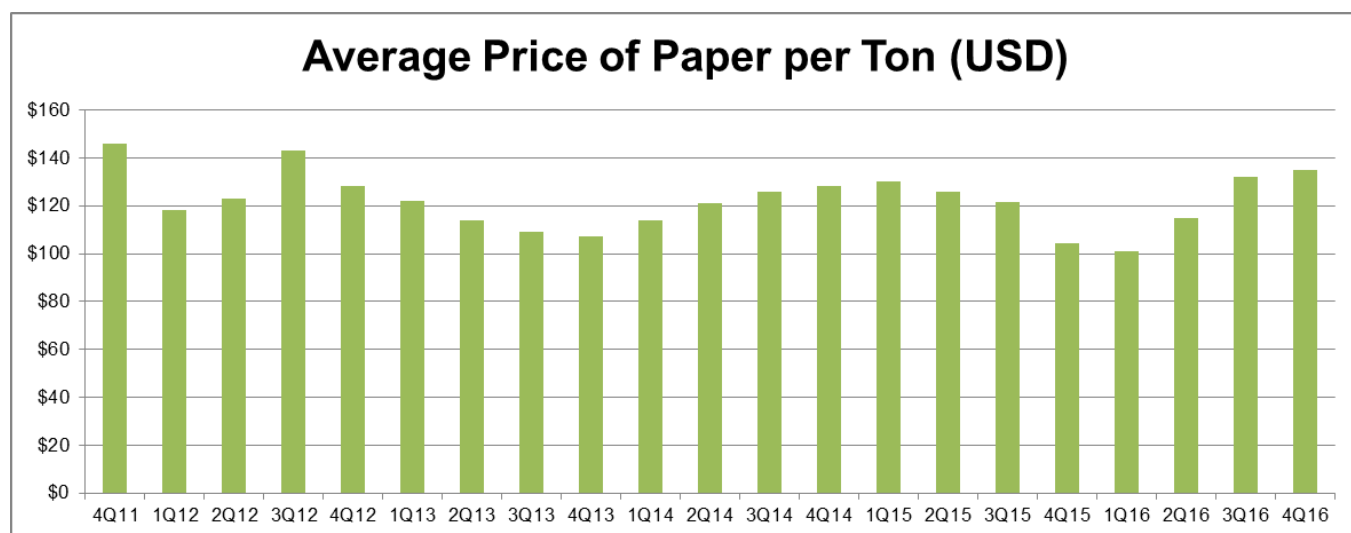
Recycling sales:

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 years ended December 31,	<b>2016</b>	<b>2015</b>	<b>% Change</b>
	<b>\$</b>	<b>\$</b>	
Recycling sales (USD)	<b>5,002,847</b>	4,315,236	16%
Same store recycling sales (USD)	<b>4,978,559</b>	4,315,236	15%

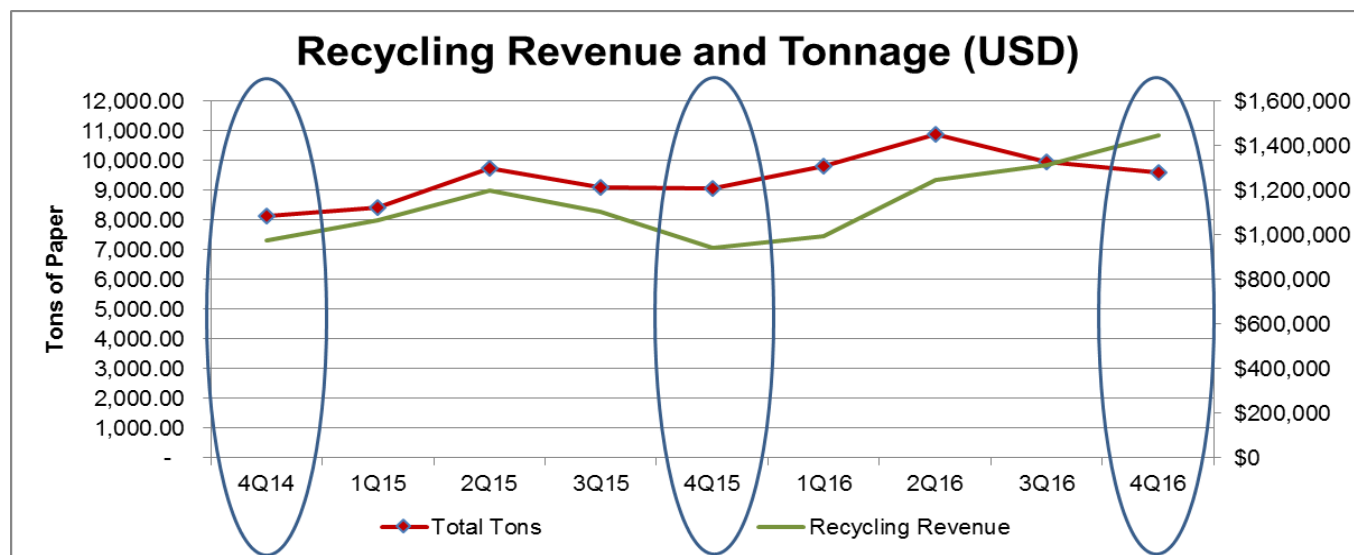
Historical Pricing Trends:

During the last three quarters, paper pricing in the Proshred system has steadily increased quarter over quarter as there has been a recovery in paper based commodity prices both abroad and domestically in the US. The average price of paper in the Proshred system at the end of 2016 was at its highest level since 2012. The average price of paper in the Proshred system was \$121 per ton in 2016 versus \$120 per ton in 2015.

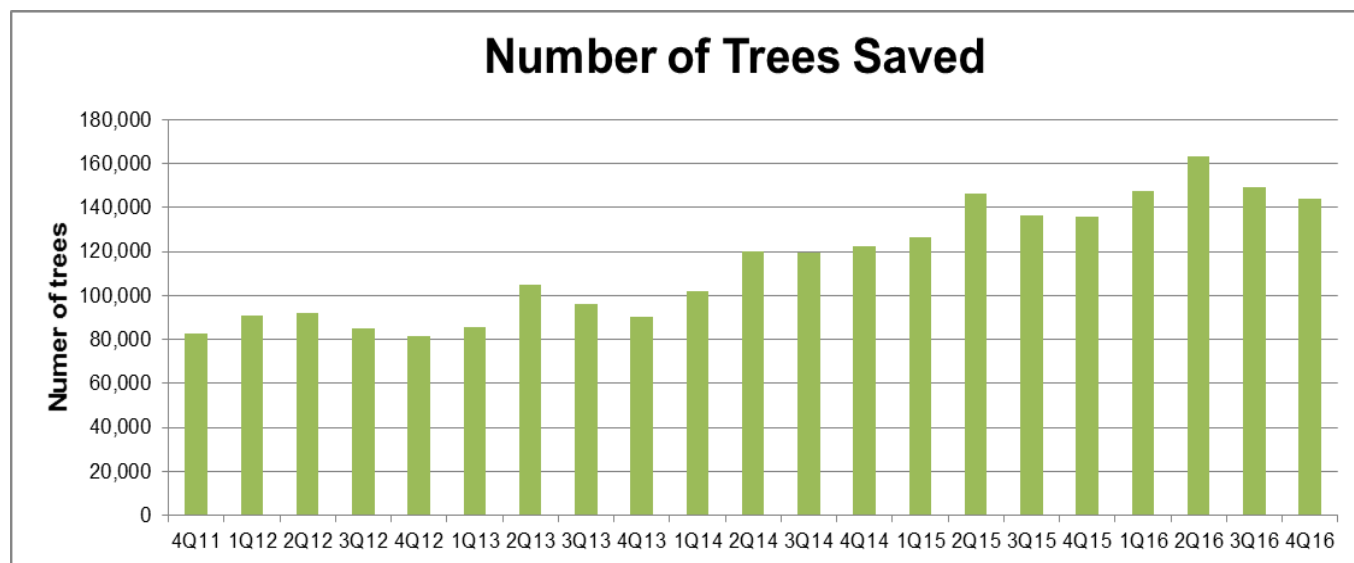


Historical Volume of Paper:

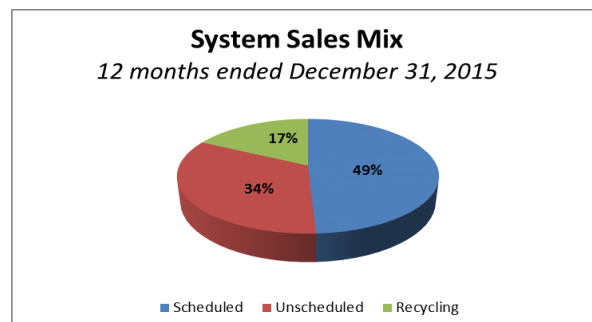
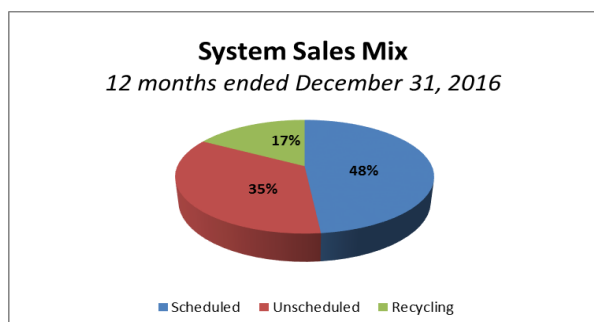
During 2016, the system shred and recycled 11% more paper than in 2015, driving recycling revenues upwards. The Proshred system shred and recycled 40,000 tons of paper during 2016 (2015 – 36,000), which equates to 603,000 trees being saved (2015 – 545,000).<sup>(1)</sup>



(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 2016 were higher than in 2015 by 17% due to increased system sales, including scheduled, unscheduled and recycling system sales and due to the strengthening of the US dollar versus the Canadian dollar. Franchise and license fees earned in 2016 were higher than in 2015 by 57% as the Company awarded three new franchises in 2016 (one new franchise – 2015).

For the years ended December 31,	2016	2015	% Change
	\$	\$	
Franchise and license fees	<b>245,253</b>	155,762	57%
Royalty and service fees	<b>1,872,540</b>	1,600,882	17%
Total revenue	<b>2,117,793</b>	1,756,644	21%

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 year ended December 31, 2016, total revenue denominated in US dollars was US\$2,020,302 (year ended December 31, 2015 – US\$1,251,667).

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## **Operating Expenses**

Operating expenses for the year ended December 31, 2016 include expenses to support 36 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 2016, total operating expenses increased as a result of the investments in: (1) attracting and retaining stronger senior management and (2) sales and marketing resources with a view to supporting higher growth in all locations in the short and medium term. Broker's fees were incurred as a result of awarding new franchises. The Company continues to closely monitor and control all operating expenses.

For the years ended December 31,

	<b>2016</b>	2015	% Change
	<b>\$</b>	<b>\$</b>	
Salaries	<b>1,075,154</b>	906,448	(19)%
General, administrative and marketing	<b>1,061,855</b>	1,068,669	1%
One-time costs	<b>148,362</b>	-	(100)%
Broker's fees	<b>57,876</b>	-	(100)%
Total operating expenses	<b>2,343,247</b>	1,975,117	(19)%
Total operating expenses excluding one-time costs	<b>2,194,605</b>	1,975,117	(11)%

One-time costs include non-capitalized financing costs related to the financing process that commenced in the fourth quarter, accounting and consulting related to the corporate structure and stock based compensation expense for the issuance of options to technical advisors.

## **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 years ended December 31,	<b>2016</b>	2015	% Change
	<b>\$</b>	<b>\$</b>	
Depreciation – tangible assets	<b>9,323</b>	-	100%
Amortization – intangible assets	<b>534,556</b>	589,597	(9)%

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## Corporate Operations

The Company operates six shredding locations in Syracuse, Albany, Milwaukee, New York City, Charlotte and Miami. These locations represent the Company's corporately owned locations. The Company acquired the shredding business of RecordShred on December 31, 2015 which was consolidated with the existing Miami location. The same store corporate location results below do not include the results of the RecordShred acquisition.

During the year ended December 31, 2016, the total corporate location revenues grew by 26% over the prior year. The Company also increased EBITDA by 3% over the year ended December 31, 2015. The Company invested in the following areas during 2016:

- (1) enhancing corporate location management with a view to driving better efficiency and growth potential;
- (2) the centralization of the inside sales functions in Toronto with a view to enhancing sales performance and allowing for scalability as new acquisitions are added, and
- (3) the centralization of the invoicing and accounts receivables team in Toronto, which will contribute to shorter accounts receivable cycles and also allow for scalability as the Company conducts further acquisitions.

The centralization of processes such as inside sales and administration functions was initiated to allow for increased cash flow margins as the Company executes on its acquisition plans. During the second half of 2016, the Company commenced the transitioning of human resources from the local branches to the Toronto head office which caused some duplication in tasks and cost to ensure a smooth transition of these functions. Management believes that this investment will allow for enhanced sales, economies of scale and cost savings to commence in the second quarter of 2017. The Company also made continued investments in replacing and refurbishing older trucks in order to maximize truck utilization and ensure that client service standards are maintained at the highest possible levels.

(In 000's)

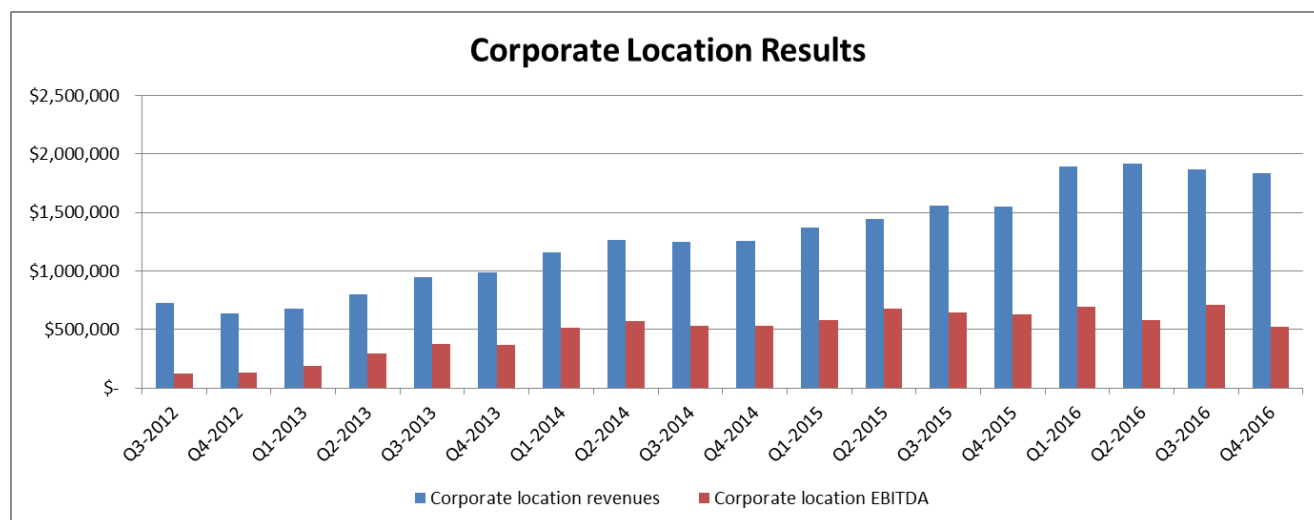
	Total Corporate Locations			Same Corporate Locations			Non-same Corporate Locations	
For the year ended December 31,	2016	2015	% Change	2016	2015	% Change	2016	2015
Revenue:	\$	\$		\$	\$		\$	\$
Shredding service	6,421	4,980	29%	5,811	4,980	17%	610	-
Recycling	1,061	941	13%	929	942	(1)%	132	-
Total revenue	7,482	5,921	26%	6,740	5,922	14%	742	-
Operating costs	4,874	3,384	44%	4,340	3,384	28%	534	-
EBITDA	2,608	2,537	3%	2,400	2,537	(5)%	208	-
Depreciation - equipment	604	499	21%	560	499	12%	44	-
Corporate operating income	2,004	2,038	(2)%	1,840	2,038	(10)%	164	-

Corporate location revenues and operating costs are generated in US dollars, which are translated at the average exchange rate for the period. For the year ended December 31, 2016, corporate location revenues, denominated in US dollars were US\$5,645,144 (year ended December 31, 2015 – US\$4,629,695).

During the year ended December 31, 2016, the depreciation on equipment increased due to:

- (1) the purchase of the South Florida assets on December 31, 2105, and
- (2) the addition of new operating assets including two new shredding vehicles, one used shredding vehicle and, computers, furniture, shredding containers, delivery vehicle and upgraded shredding equipment. Note the Company traded in two older vehicles to purchase the two newer vehicles.

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Note (1): The Company acquired the assets of Recordshred Inc. on December 31, 2015.

Note (2): Corporate operating income does not include an allocation of corporate overhead.

### Amortization - intangibles

Amortization of intangibles relates to the assets purchased in relation to the Syracuse, Albany, Milwaukee, New York City, Charlotte and Miami corporate locations.

Depreciation and amortization are as follows:

For the years ended December 31,	2016	2015	% Change
	\$	\$	
Amortization – intangibles	389,915	396,496	(2)%

### Foreign exchange

All of Redishred's revenues are denominated in US dollars; this dependency on US dollar revenues causes foreign exchange gains when the Canadian dollar depreciates versus the US dollar or when the Company incurs significant US dollar costs. 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 results in unrealized foreign exchange gains or losses.

### Exchange rates utilized

As at,	2016				2015	
	Q4	Q3	Q2	Q1	Q4	Q3
	\$	\$	\$	\$	\$	\$
Balance sheet date exchange rates (CDN to USD)	1.3427	1.313	1.290	1.300	1.384	1.335
% change	2%	2%	(1)%	(6)%	4%	

For the years ended December 31,	2016	2015	% Change
	\$	\$	
Average exchange rates for the period (CDN to USD)	1.3253	1.279	4%

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Foreign exchange gain (loss) was as follows:

For the years ended December 31,	2016	2015	% Change
	\$	\$	
Realized foreign exchange gain	714,083	565,685	26%
Unrealized foreign exchange (loss) gain	(644,765)	477,750	(235)%
Foreign exchange gain	69,318	1,043,435	(93)%

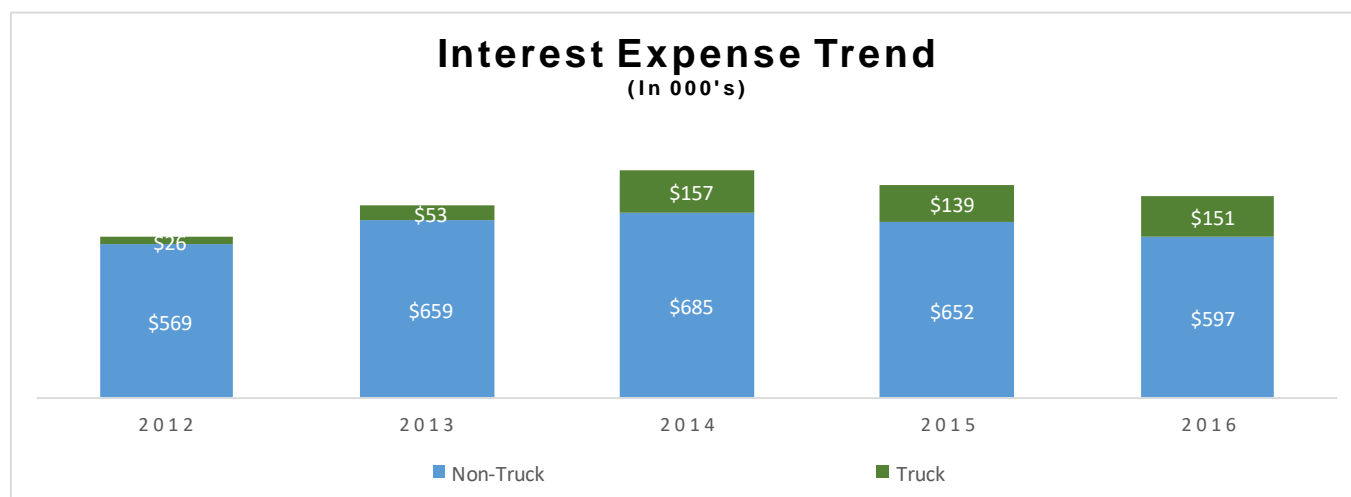
### Interest income and expense

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 use of the Company's line of credit facility, which bears interest at 10% per annum, interest on the truck loan agreements, which bear interest at 5.95% to 8.0% per annum and interest on the convertible debentures at 7.5%. Interest expense also relates to the loan agreements for the purchase of the Proshred Charlotte franchise. The loans bear interest at 9% per annum. Interest expense decreased in 2016 in comparison to the prior year as a result of the principal repayments made on the line of credit.

On January 23, 2017, the Company converted \$1,017,078 of debt and convertible debenture held by insiders of the Company into equity at a price of \$0.30 per Common Share, which will further reduce interest expense in 2017.

For the years ended December 31,	2016	2015	% Change
	\$	\$	
Interest income	7,861	12,358	(36)%
Interest expense	(748,219)	(791,247)	5%



## 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 year ended December 31, 2016, the Company booked a tax recovery of \$199,706. The recovery is primarily due to the reversal of timing differences related to the future tax liability that was recorded upon the acquisition of PSC. This tax recovery was offset by withholding and state taxes of \$70,185.

At December 31, 2016 the Company has incurred non-capital losses of \$5,170,000 in Canada and \$1,260,000 in the U.S. that can be carried forward to reduce income taxes payable. The losses expire at various times through December 31, 2035.

## Net income

For the year ended December 31, 2016, net income before foreign exchange, gain (loss) on sale of assets and income tax decreased by 19% over the prior year. The decline was a result of higher depreciation on equipment due to the acquisition of the South Florida business on December 31, 2015. The Company incurred a loss on the sale of assets due to the trade-in of two of its shredding vehicles. The vehicles were traded in to upgrade the chassis power and shredding capability in the NYC market to enhance productivity.

## Reconciliation of EBITDA to Net Income

For the years ended December 31,

	2016	2015	% Change
	\$	\$	
EBITDA	<b>2,382,116</b>	2,318,163	3%
Less: depreciation – equipment	<b>(614,301)</b>	(498,555)	23%
Operating income	<b>1,767,815</b>	1,819,608	(3)%
Less: amortization - intangible assets	<b>(924,470)</b>	(914,102)	(1)%
Less: interest expense	<b>(748,219)</b>	(791,247)	5%
Add: interest income	<b>7,861</b>	12,358	(36)%
Income before foreign exchange, (loss) gain on sale of assets and income tax:	<b>102,987</b>	126,617	(19)%
Foreign exchange gain	<b>69,318</b>	1,043,435	(93)%
(Loss) gain on sale of assets	<b>(136,016)</b>	51,991	(362)%
Income tax recovery (expense)	<b>137,599</b>	(329,804)	142%
Net income	<b>173,888</b>	892,239	(81)%

## Selected Annual Information

	2016	2015	2014
	\$	\$	\$
Total Revenue	9,599,303	7,678,025	6,174,783
Net income	173,888	892,239	242,795
Net income per share – basic	0.00	0.03	0.01
Net income per share – diluted	0.00	0.03	0.01
Total assets	10,001,400	10,713,530	9,049,505
Total non-current financial liabilities	2,667,760	8,043,134	7,820,483
Dividends	-	-	-



**REDISHRED CAPITAL CORP.**  
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**Selected Quarterly Results**

(in CDN except where noted)	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$
<b>System sales (USD)</b>	<b>7,719,401</b>	<b>7,511,789</b>	<b>7,576,734</b>	<b>6,865,531</b>	<b>6,246,162</b>	<b>6,497,246</b>	<b>6,391,020</b>	<b>5,749,247</b>
<b>Total Revenue</b>	<b>2,357,247</b>	<b>2,418,386</b>	<b>2,475,518</b>	<b>2,348,152</b>	<b>2,105,982</b>	<b>1,974,509</b>	<b>1,824,583</b>	<b>1,772,951</b>
Franchise and license fees	-	67,611	175,006	2,636	122,533	4,120	2,210	26,899
Royalty and service fees	481,190	480,039	457,819	453,492	434,070	415,832	378,989	371,991
<b>Total revenue from franchising and licensing</b>	<b>481,190</b>	<b>547,650</b>	<b>632,825</b>	<b>456,128</b>	<b>556,603</b>	<b>419,952</b>	<b>381,199</b>	<b>398,890</b>
Operating costs	(576,057)	(514,899)	(567,611)	(536,038)	(698,770)	(414,321)	(453,747)	(405,279)
One-time costs	(148,642)	-	-	-	-	-	-	-
Total operating expenses	(724,699)	(514,899)	(567,611)	(536,038)	(698,770)	(414,321)	(453,747)	(405,279)
<b>Franchising and licensing EBITDA</b>	<b>(243,509)</b>	<b>32,751</b>	<b>65,214</b>	<b>(79,910)</b>	<b>(142,167)</b>	<b>5,631</b>	<b>(72,548)</b>	<b>(6,389)</b>
Corporate locations revenue	1,876,057	1,870,736	1,842,693	1,892,024	1,549,379	1,554,557	1,443,384	1,374,061
Corporate locations operating costs	(1,361,140)	(1,162,739)	(1,154,551)	(1,195,510)	(913,240)	(908,449)	(764,529)	(798,527)
<b>Corporate locations EBITDA</b>	<b>514,917</b>	<b>707,997</b>	<b>688,142</b>	<b>696,514</b>	<b>636,139</b>	<b>646,108</b>	<b>678,855</b>	<b>575,534</b>
Depreciation – equipment	(161,868)	(160,070)	(138,883)	(144,157)	(137,570)	(120,789)	(119,418)	(120,778)
<b>Total operating income – corporate</b>	<b>353,049</b>	<b>547,927</b>	<b>549,259</b>	<b>552,357</b>	<b>498,569</b>	<b>525,319</b>	<b>559,437</b>	<b>454,756</b>
<b>Consolidated EBITDA</b>	<b>271,408</b>	<b>740,748</b>	<b>753,356</b>	<b>616,604</b>	<b>493,972</b>	<b>651,739</b>	<b>603,307</b>	<b>569,145</b>
<b>Normalized EBITDA</b>	<b>420,050</b>	<b>740,748</b>	<b>753,356</b>	<b>616,604</b>	<b>493,972</b>	<b>651,739</b>	<b>603,307</b>	<b>569,145</b>
<b>Normalized Operating Income</b>	<b>248,769</b>	<b>580,678</b>	<b>614,473</b>	<b>472,537</b>	<b>356,402</b>	<b>530,950</b>	<b>486,889</b>	<b>448,366</b>
Income (loss) before taxes from continuing operations	(182,167)	104,823	191,569	(77,936)	255,559	347,399	18,358	600,727
Income (loss) attributable to owners of the parent	(17,386)	75,589	188,267	(72,582)	(112,571)	363,260	35,710	605,840
Basic and diluted net income (loss) per share	(.00)	.00	.01	(.00)	(.00)	.01	.00	.02

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

## Q4 Financial Highlights

(in 000's except as noted)

	2016	2015	% change
	\$	\$	
<b>System Sales Performance – in US Currency</b>			
System sales	7,719	6,246	24%
Percentage scheduled	49%	51%	
System sales – same location	7,594	6,216	22%
Percentage scheduled	49%	51%	
<b>Operating Performance – in Canadian Currency</b>			
<u>Consolidated results:</u>			
Revenue	2,357	2,106	12%
EBITDA	271	494	(45)%
One-time costs	149	-	100%
Normalized EBITDA	420	494	(15)%
Operating Income	100	356	(72)%
As a percentage of revenue	4%	17%	
Normalized Operating Income	249	356	(30)%
<u>Corporate location results:</u>			
Revenue	\$1,876	\$1,549	21%
Less acquired revenue	\$194	-	100%
Revenue before acquired revenue	\$1,682	\$1,549	9%
EBITDA	\$515	\$636	(19)%
Operating income	\$353	\$499	(29)%
As a percentage of revenue	19%	32%	

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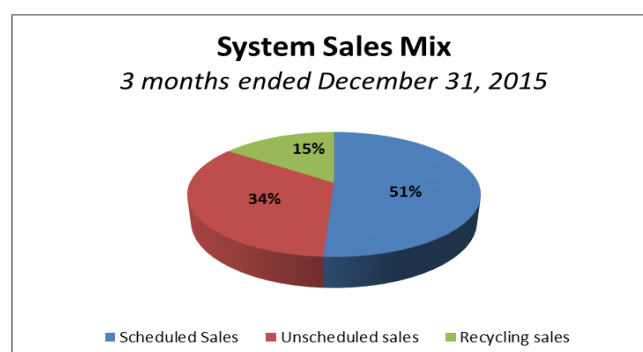
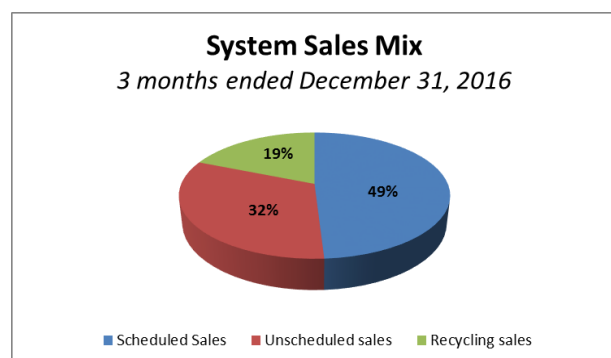
## Q4 System Sales Results

During the fourth quarter, scheduled sales reached a record high of US\$3,805,652 and unscheduled sales were US\$2,464,415, growing 16% over the same period in 2015. Service related system sales, scheduled and unscheduled, were US\$6,270,067 for the fourth quarter of 2016, growing by US\$967,790 or 18% over the fourth quarter of 2015.

During the three months ended December 31, 2016, recycling sales increased by 54% over the same period in 2015. 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\$135 per ton, versus US\$104 per ton in the fourth quarter of 2015, an increase of 29%. The Proshred system shred and recycled 9,600 tons of paper during the fourth quarter of 2016 (fourth quarter of 2015 – 9,000), which equates to 144,000 trees being saved (fourth quarter of 2015 – 136,000).

For the 3 months ended December 31,	2016	2015	% Change
Total locations	36	34	6%
Operating territories – (US only)	123.5	117.4	5%
Total system sales (USD)	\$7,719,401	\$6,246,162	24%
Total same store system sales (USD)	\$7,594,436	\$6,246,162	22%
Total system sales (CDN)	\$10,297,681	\$ 7,988,841	29%
Scheduled service sales (USD)	\$3,805,652	\$3,183,289	20%
Same store scheduled service sales (USD)	\$3,758,254	\$3,183,289	18%
Unscheduled service sales (USD)	\$2,464,415	\$2,118,988	16%
Same store unscheduled service sales (USD)	\$2,401,682	\$2,118,988	13%
Recycling sales (USD)	\$1,449,334	\$943,885	54%
Same store recycling sales (USD)	\$1,434,499	\$943,885	52%

### System Sales Mix:



## Q4 Franchising and Licensing Results

During the fourth quarter of 2016, the Company's royalties grew by 11% as a result of increased system sales. The Company awarded a new franchise in the fourth quarter of 2015 but did not award a new franchise in the fourth quarter of 2016. For the three months ended December 31, 2016, total revenue denominated in US dollars was US\$363,080 (three months ended December 31, 2015 – US\$435,186).

For the 3 months ended December 31,	<b>2016</b>	<b>2015</b>	<b>% Change</b>
	<b>\$</b>	<b>\$</b>	
Franchise and license fees	-	122,533	(100)%
Royalty and service fees	<b>481,190</b>	434,070	11%
Total franchise revenue	<b>481,190</b>	556,603	(14)%
Salaries	<b>331,089</b>	296,388	(12)%
General, administrative and marketing	<b>244,968</b>	442,372	45%
One-time costs	<b>148,642</b>	-	(100)%
Total operating expenses	<b>724,699</b>	738,760	2%
Franchising and licensing EBITDA	<b>(243,509)</b>	(182,157)	(34)%
Depreciation – tangible assets	<b>6,919</b>	-	100%

One-time costs include non-capitalized financing costs related to the financing process that commenced in the quarter, accounting and consulting related to corporate structure and stock based compensation expense for the issuance of options to technical advisors.

## Q4 Corporate location results

During the three months ended December 31, 2016, the corporate location revenues grew by 21% over the same comparative prior year period. For the three months ended December 31, 2016, corporate location revenues, denominated in US dollars were US\$1,386,381 (three months ended December 31, 2015 - US\$1,159,855).

(In 000's)

	<b>Total Corporate Locations</b>			<b>Same Corporate Locations</b>			<b>Non-same Corporate Locations</b>	
For the three months ended December 31,	<b>2016</b>	<b>2015</b>	<b>% Change</b>	<b>2016</b>	<b>2015</b>	<b>% Change</b>	<b>2016</b>	<b>2015</b>
Revenue:	<b>\$</b>	<b>\$</b>		<b>\$</b>	<b>\$</b>		<b>\$</b>	<b>\$</b>
Shredding service	<b>1,604</b>	1,335	20%	<b>1,445</b>	1,335	8%	<b>159</b>	-
Recycling	<b>272</b>	214	27%	<b>237</b>	214	11%	<b>35</b>	-
Total revenue	<b>1,876</b>	1,549	21%	<b>1,682</b>	1,549	9%	<b>194</b>	-
Operating costs	<b>1,361</b>	913	49%	<b>1,236</b>	913	35%	<b>125</b>	-
EBITDA	<b>515</b>	636	(19)%	<b>446</b>	636	(30)%	<b>69</b>	-
Depreciation - equipment	<b>162</b>	138	18%	<b>151</b>	138	9%	<b>11</b>	-
Corporate operating income	<b>353</b>	499	(29)%	<b>295</b>	499	(41)%	<b>58</b>	-

#### Q4 Other Income and Expenses

	<b>2016</b>	<b>2015</b>	<b>% Change</b>
	<b>\$</b>	<b>\$</b>	
Interest Income	<b>1,731</b>	3,796	(54)%
Interest expense	<b>(193,429)</b>	(228,940)	16%
Amortization – intangible assets	<b>259,021</b>	253,529	2%

In the fourth quarter of 2016, interest expense declined by 16% 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 South Florida business on December 31, 2015, offset by the amortization of all intangible assets during the period.

#### Financial Condition, Capital Resources and Liquidity

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

	<b>December 31, 2016</b>	<b>December 31, 2015</b>	<b>% Change</b>
Working capital (Normalized) <sup>(1)</sup>	<b>\$115,641</b>	\$21,721	432%
Total assets	<b>\$10,001,400</b>	\$10,713,530	(7)%
Total liabilities	<b>\$9,482,882</b>	\$10,183,518	(7)%
Debt to total assets ratio	<b>0.95</b>	0.95	0%
Fixed charge coverage ratio – rolling 12 months	<b>1.18</b>	1.36	(13)%
Total Funded Debt to EBITDA ratio – rolling 12 months	<b>3.39</b>	3.52	(4)%

- (1) Working capital has been adjusted by \$4.5M 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 decreased when compared to December 31, 2015 primarily as a result of the appreciation of the Canadian dollar, as a significant portion of the Company's assets are denominated in US dollars. The total liabilities of the Company have decreased over the prior year as a result of principal repayments of the Company's debt that was offset by the appreciation of the Canadian dollar. The Company has \$1.06 million available for use on its line of credit as of December 31, 2016.

As a result of the principal repayments made, the Company's rolling twelve-month fixed charge coverage has decreased by 13% and its total funded debt to EBITDA ratio has decreased by 4% since December 31, 2015. The Company's normalized working capital has improved to \$116,000 as at December 2016. Management will continue to balance investment in human resources, trucks and technology with continued reduction and management of its debt balances.

At December 31, 2016, current liabilities of \$6,815,122 (December 31, 2015 - \$2,140,384) are due to be settled within one year from the balance sheet date, with the exception of the line of credit.

The Company has the following operating lease commitments:

	<b>\$</b>
Less than 1 year	<b>233,228</b>
Between 1 and 5 years	<b>119,334</b>
Total	<b>352,562</b>

**REDISHRED CAPITAL CORP.**  
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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.

During the year ended December 31, 2016, 55,000 stock options were exercised. The following are the balances of issued common shares of the Company.

	<b>Common stock</b>	
	<b>Number</b>	<b>\$</b>
<b>December 31, 2016</b>	28,939,658	8,590,995
<b>December 31, 2015</b>	28,884,658	8,585,808

*Line of Credit*

The Company has drawn from its line of credit in order to finance the purchase of all of its corporate locations with the exception of Charlotte and for general business purposes. During September of 2013, the Company signed an amendment to its existing line of credit facility, extending the facility's term for an additional three years to November 27, 2017. The interest rate remains at 10% per annum, paid semi-annually and the facility remains at \$6.03 million. The Company has \$1.06 million available for use on its line as of December 31, 2016. On February 7, 2017, the Company signed an amendment to its existing line of credit facility, extending the facility's term for an additional two years to November 27, 2019.

On January 23, 2017, the Company closed its private placements and debt conversion, raising approximately \$2.03 million out of a maximum of up to \$4 million being offered to all eligible existing shareholders and raised an additional \$2 million in an additional offering. Both private placement transactions sold units of the Company (the "Units") at a price of \$0.30 per Unit. Each Unit is comprised of one common share in the capital of the Company (a "Common Share") and 0.15 of a Common Share purchase warrant (each whole such warrant, a "Warrant"). Each Warrant is exercisable into one Common Share at a price of \$0.36 per Common Share for a period of five years from the closing date of the offerings. The Company issued 2,002,150 Warrants.

Following these transactions, the Company has outstanding 46,902,587 Common Shares, options exercisable for 675,000 Common Shares and Warrants exercisable for an additional 2,002,150 Common Shares.

**Capital Assets**

<i>As at,</i>	<b>December 31, 2016</b>	<b>December 31, 2015</b>	<b>% Change</b>
	<b>\$</b>	<b>\$</b>	
Net book value	<b>3,222,547</b>	3,155,192	2%

During the year ended December 31, 2016, capital assets (not including intangible assets) increased as a result of the purchase of a three shredding vehicles, computers, furniture, shredding containers, a delivery vehicle and upgraded shredding equipment. The Company also traded in two used shredding vehicles. These purchases offset the decrease in asset values as a result of the appreciation of the Canadian dollar, as a significant portion of the assets are denominated in USD.

**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. Included in accounts receivable at December 31, 2016, is \$580 (2015 - \$2,598) due from this franchise. During the year ended December 31, 2016, the Company earned royalties, service fees and franchise fees of \$189,333 (2015 - \$112,853) from this franchise. In June 2016, the Director was awarded the Orlando, Florida franchise for a purchase price of US\$50,000. The Company financed 50% of the purchase price. Included in notes receivable from the franchisees is a US\$25,000 three year note receivable at an interest rate of 5% per annum.

The Company has a line of credit facility with a related party entity, the Company's largest shareholder, for a maximum of \$6.03 million, repayable on November 27, 2017, bearing interest at a fixed rate of 10% per annum. The Company has drawn from its line of credit in order to finance the purchase of all of its corporate locations with the exception of Charlotte and for general business purposes. The Company has \$1.06 million available for use on its line as of December 31, 2016. On February 7, 2017, the Company signed an amendment to its existing line of credit facility, extending the facility's term for an additional two years to November 27, 2019.

Included in selling, general and administrative expenses for the year ended December 31, 2016 are insurance premium amounts of \$15,039 (December 31, 2015 - \$18,489) paid to an insurance brokerage firm managed by a Director of the Company.

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

In order to finance the purchase of the Proshred Charlotte franchise on July 31, 2013, the Company entered into the following loan agreements with related parties:

- (a) A 5 year loan agreement in the amount of CAD\$525,750 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity;
- (b) A 5 year loan agreement in the amount of US\$75,000 maturing July 31, 2018. The loan bears interest at 9% per annum with interest payable semi-annually. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity;
- (c) A 4 year loan agreement in the amount of CAD\$100,000 with monthly blended payments of principal and interest of CAD\$2,488 maturing July 31, 2017. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The loan bears interest at 9% per annum; and
- (d) A 4 year loan agreement in the amount of US\$50,000 with monthly blended payments of principal and interest of US\$1,244 maturing July 31, 2017. The loan is secured by a general security agreement over the assets of the Proshred Charlotte entity. The loan bears interest at 9% per annum.

Subsequent to year-end, on January 23, 2017, the Company converted the following loan agreements into equity at a price of \$0.30 per Common Share:

- (a) The 5 year loan agreement in the amount of CAD\$525,750;
- (b) The 5 year loan agreement in the amount of US\$75,000; and
- (c) The 4 year loan agreement in the amount of CAD\$100,000.

## **Subsequent Events**

On January 23, 2017, the Company closed its private placements and debt conversion. The Company raised approximately \$2.03 million out of a maximum of up to \$4 million being offered to all eligible existing shareholders and raised an additional \$2 million in an additional offering. Both private placement transactions sold units of the Company (the "Units") at a price of \$0.30 per Unit. Each Unit is comprised of one common share in the capital of the Company (a "Common Share") and 0.15 of a Common Share purchase warrant (each whole such warrant, a "Warrant"). Each Warrant is exercisable into one Common Share at a price of \$0.36 per Common Share for a period of five years from the closing date of the offerings. The Company issued 2,002,150 Warrants. No commissions or finders fees were paid in connection with the offerings.

The details of the private placements and debt conversions are as follows:

	<b>Value</b>	<b>Common Shares</b>	<b>Strike Price</b>
	\$	Units	\$
Private placement	4,034,300	13,447,669	0.30
Debt conversion	642,078	2,140,258	0.30
Conversion of debentures	375,000	1,250,002	0.30
Options exercised	207,500	1,125,000	0.15-0.30

Following these transactions, the Company has outstanding 46,902,587 Common Shares, options exercisable for 675,000 Common Shares and Warrants exercisable for an additional 2,002,150 Common Shares.

On February 7, 2017, the Company signed an amendment to its existing line of credit facility, extending the facility's term for an additional two years to November 27, 2019. The other terms of the original agreement remained unchanged upon extending the facility's term.

On March 31, 2017, the Company purchased the assets of the Proshred Northern Virginia franchise for a purchase price of \$1,073,000. The acquisition was financed by utilizing Redishred's cash reserves as well as a vendor financing.

## **Risks and Uncertainties**

The Company's financial performance is likely to be subject to the following risks:

### *Competition*

The Company competes with numerous independent shredding operators in the document destruction business, some of which compete directly with the Company and some of which may have greater resources. Direct competitors to the Company include Iron Mountain Incorporated, Recall, Shred-It America, Inc. (now owned by Stericycle Inc.), and small, independent mobile shredding businesses.

### *Financing*

The Company is still in its early stage of development and has not yet reached the size and scale to generate sufficient royalty and licence fee revenues to produce a positive cash flow from its franchise system. Accordingly, the Company may require additional capital to operate and grow so as to reach this necessary critical mass. Additionally, the Company will continue to identify and evaluate other shredding businesses or related assets with a view to acquiring such businesses or assets that are accretive to the cash flows of the Company. In order to complete these acquisitions, the Company will be required to seek additional financing.



### *Franchising Strategy*

The Company's business strategy involves the establishment of new Franchises. The Company may not be successful in establishing new Franchises and the failure to do so will slow the Company's growth. Furthermore, even if the Company were successful in establishing new Franchises, these new Franchises may fail to perform as expected and management of the Company may underestimate the difficulties, costs, management time and financial and other resources associated with terminating these Franchises or ensuring their continued operation. If the new Franchises fail to perform as expected or incur significant increases in projected costs, the Company's revenues could be lower, and its operating expenses higher, than expected.

### *Acquisition Strategy*

The Company's business strategy involves expansion through acquisitions and business development projects. These activities require the Company to identify acquisition or development candidates or investment opportunities that meet its criteria and are compatible with its growth strategy. The Company may not be successful in identifying document destruction businesses that meet its acquisition or development criteria or in completing acquisitions, developments or investments on satisfactory terms. Failure to complete acquisitions or developments will slow the Company's growth. The Company could also face significant competition for acquisitions and development opportunities. The Company may also require additional financing to conduct acquisitions. Some of the Company's competitors have greater financial resources than the Company and, accordingly, have a greater ability to borrow funds to acquire businesses.

These competitors may also be willing and/or able to accept more risk than the Company can prudently manage, including risks with respect to the geographic concentration of investments and the payment of higher prices. This competition for investments may reduce the number of suitable investment opportunities available to the Company, may increase acquisition costs and may reduce demand for document destruction services in certain areas where the Company's business is located and, as a result, may adversely affect the Company's operating results.

### *Corporate Locations*

The Company's acquired businesses may fail to perform as expected and management of the Company may underestimate the difficulties, costs, management time and financial and other resources associated with the businesses. In addition, any business expansions the Company undertakes is subject to a number of risks, including, but not limited to, having sufficient ability to raise capital to fund future expansion, and having sufficient human resources to convert, integrate and operate the acquired businesses. If any of these problems occur, expansion costs for a project will increase, and there may be significant costs incurred for projects that are not completed.

In deciding whether to acquire or expand a particular business, the Company will make certain assumptions regarding the expected future performance of that business. If the Company's acquisition or expansion businesses fail to perform as expected or incur significant increases in projected costs, the Company's revenues could be lower, and its operating expenses higher, than expected.

### *International Strategy*

The Company's business strategy involves expansion into international markets through licensing. These activities require the Company to identify international candidates and meet its criteria and are compatible with its growth strategy. The Company may not be successful in identifying licensees that meet its licensing criteria. Failure to expand internationally will slow the Company's growth.

Additionally, the international licensee under the Companies current license agreement may fail to perform as expected and management of the Company may underestimate the difficulties, costs, management time and financial and other resources associated with ensuring their continued growth. If the international licensee fails to perform as expected, the Company's revenues could be lower.

### *Currency Fluctuations*

The Company's principal executive office is in Canada, all the directors and officers of the Company are Canadian and many significant expenses of the Company are in and will be for the foreseeable future in Canadian dollars, while revenues will be measured in US dollars. Accordingly, the financial results of the Company will be impacted by fluctuations in currency rates.

### *Expansion to New Markets*

It is the plan of management to continue expanding the Proshred Franchise Business in the United States and internationally including areas where customers are unfamiliar with the Proshred brand. The Company will need to build brand awareness in those markets through greater investments in advertising and promotional activity than in existing markets, and those activities may not promote the Proshred brand as effectively as intended, if at all.

Many of the United States and international markets into which management intends to expand will have competitive conditions, consumer tastes and discretionary spending patterns that differ from existing markets. Franchises in those markets may have lower sales and may have higher operating or other costs than existing Franchises. Sales and profits at Franchises opened in new markets may take longer to reach expected levels or may never do so.

### *Litigation*

The Company may become subject to disputes with employees, franchisees, customers, commercial parties with whom it maintains relationships or other parties with whom it does business. Any such dispute could result in litigation between the Company and the other parties. Whether or not any dispute actually proceeds to litigation, the Company may be required to devote significant resources, including management time and attention, to its successful resolution (through litigation, settlement or otherwise), which would detract from management's ability to focus on the Company's business. Any such resolution could involve the payment of damages or expenses by the Company, which may be significant. In addition, any such resolution could involve the Company's agreement to certain settlement terms that restrict the operation of its business.

## **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. Subjects that involve critical assumptions and estimates and that have a significant influence on the amounts recognized in the consolidated financial report are further described as follows:

### *i) Impairment and reversal of impairment*

The Company reviews goodwill at least annually and other non-financial assets when there is any indication that the assets might be impaired or any indications that impairment of assets other than goodwill should be reversed. The determination of the value in use and fair value of a CGU to which goodwill is allocated to involves the use of estimates by management. The Company uses discounted cash flow based methods to determine these values. These discounted cash flow calculations typically use five-year projections that are based on the operative plans approved by management. Cash flow projections take into account past experience and represent management's best estimate of future developments. Cash flows after the planning period are extrapolated using estimated growth rates. Key assumptions on which management has based its determination of value-in-use include estimated growth rates, discount rates, future cash flows, margins and tax rates. These estimates, including the methodology used, can have a material impact on the respective values and ultimately the amount of any impairment or reversal of impairment.

*ii) Useful lives of tangible and intangible assets*

Management estimates the useful lives of tangible and definite life intangible assets based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of these assets for any period are affected by these estimated useful lives. On an annual basis, the Company assesses the useful lives of its tangible and intangible assets with definite lives and the useful lives are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's tangible and definite life intangible assets in the future.

*iii) Deferred income taxes*

The Company, including its subsidiaries, operate and earn income in multiple countries and is subject to changing tax laws in multiple jurisdictions within these countries. Significant judgements are necessary in determining income tax assets and liabilities. Although management believes that it has made reasonable estimates about the final outcome of tax uncertainties, no assurance can be given that the final outcome of these tax matters will be consistent with what is reflected in the historical income tax provisions. Such differences could have an effect on the deferred tax assets and liabilities in the period in which such determinations are made. At each date of Statement of Financial Position, the Company assesses whether the realization of future tax benefits is sufficiently probable to recognize deferred tax assets and liabilities. This assessment requires the exercise of judgement on the part of management with respect to, among other things, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The recorded amount of total deferred tax assets and liabilities could be materially affected if changes in current tax regulations are enacted.

## **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 December 31, 2016, there were 28,939,658 issued and outstanding common shares. As at December 31, 2016 there were 2,100,000 options to acquire common shares. During the year ended December 31, 2016, no stock options expired (2015 – 152,500). There were 325,000 stock options granted during the year ended December 31, 2016 (2015 – 730,000). During the year ended December 31, 2016, 55,000 stock options were exercised (2015 – Nil). The net stock compensation charge, after adjusting for stock option forfeitures, amounted to \$87,130 (2015 – \$52,188).

Dated: April 26, 2017

