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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 unaudited consolidated interim financial statements for the year ended December 31, 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 2017 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 18, 2018.

## **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. number and size of acquisitions,
  - f. the ability to realize efficiencies from acquired operations,
  - g. the exchange rate fluctuations between the US and Canadian dollar,
  - h. 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.
- **Consolidated EBITDA** is defined as earnings before interest, taxes, depreciation and amortization, and gains or losses on sale of assets.
- **Normalized Consolidated EBITDA** is defined as EBITDA excluding one-time costs such as those that relate to the issuance of options relating to the equity financing conducted in the first quarter of 2017.
- **Corporate Location EBITDA** is defined as EBITDA generated from corporately operated locations.
- **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.
- **Consolidated Operating Income less Net Interest Expense** is defined as consolidated operating income including interest income and expense.
- **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 such as those that relate to the issuance of options relating to the equity financing conducted in the first quarter of 2017.

## **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 2017 the Proshred system achieved \$34 million USD in System Sales (\$26.9 million USD through franchised/licensed locations and \$7.1 million USD through the corporately owned operations).

## **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 growth – this measure considers Redishred's ability to increase its 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 its 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 years ended December 31,	2017	2016 <sup>(4)</sup>	% change
<b>System Sales Performance – in USD</b>			
Total locations in the United States	29	29	0%
System sales	\$34,070	\$29,673	15%
Percentage scheduled	48%	48%	
System sales – same location	\$33,869	\$29,498	15%
Percentage scheduled	48%	48%	
<b>Consolidated Operating Performance – in CDN</b>			
Revenue	\$11,336	\$9,599	18%
EBITDA	\$2,906	\$2,389	22%
Normalized EBITDA <sup>(1)</sup>	\$3,182	\$2,530	26%
Operating Income	\$1,936	\$1,775	9%
Normalized Operating Income <sup>(1)</sup>	\$2,213	\$1,923	15%
As a percentage of revenue	20%	20%	
Normalized Operating Income per share fully diluted <sup>(2)</sup>	\$0.05	\$0.06	(17)%
<b>Corporate Location Performance – in CDN</b>			
Revenue	\$9,315	\$7,481	24%
EBITDA	\$3,594	\$2,608	38%
Operating income	\$2,650	\$2,003	32%
As a percentage of revenue	28%	27%	
As at December 31,	2017	2016	% change
<b>Capital Management – in CDN</b>			
Working capital (Normalized) <sup>(3)</sup>	\$1,411	\$116	1120%
Debt to total assets ratio	0.42	0.95	56%
Normalized Fixed Charge Coverage ratio – rolling 12 months	2.30	1.18	95%
Normalized Total Funded Debt to EBITDA ratio – rolling 12 months	1.28	3.39	62%

(1) Excludes one-time cost related to the issuance of options to members of the Board of relating to the equity financing conducted in the first quarter of 2017.

(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.

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

## Summary of Results and Operations

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

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 2017 Redishred's System Sales growth over 2016 was as follows:

<b>Total System Sales increased by 15% (Same Store 15%)</b>	
<u><i>By Service Type:</i></u>	<u><i>By Location Type:</i></u>
Scheduled (recurring) increased by 13% (Same Store 13%)	Franchise location system sales increased by 17%
Unscheduled increased by 11% (Same Store 11%)	Royalty revenue increased by 7%
Recycling increased by 27% (Same Store 26%)	Corporate location system sales increased by 13% (Same Store 11%)

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

During 2017, corporate location EBITDA has grown 38% and operating income has grown by 32% over the prior year. 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.

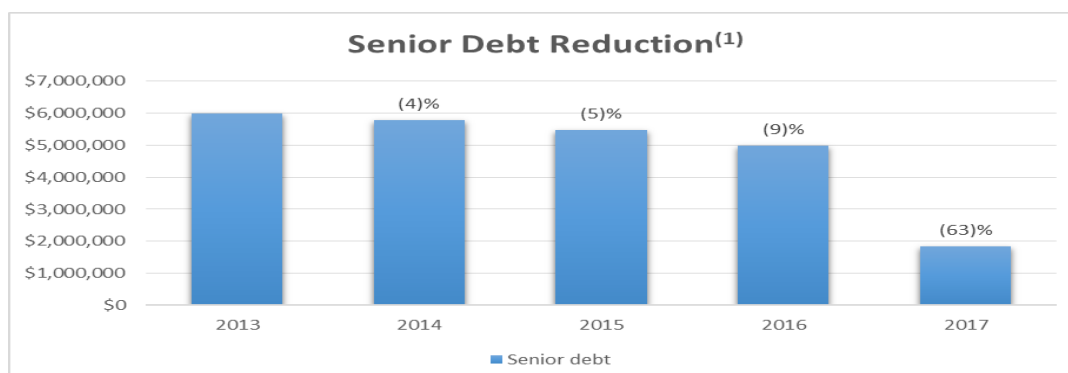
The Company's centralization program was completed in the first six months of 2017.

### ***Improving Balance Sheet – Equity Raise, Debt Reduction and Refinancing***

In order to improve the Balance Sheet, management took the following steps and actions during the year:

- (1) Closed on a private placement raising \$4.03 million;
- (2) Converted \$1.10 million of related party debt into equity;
- (3) Certain Board of Directors' stock options were exercised for a total of \$207,500;
- (4) Secured senior credit facilities with Bank of Montreal ("BMO") at lower interest rates than previous debt; and
- (5) Repaid in full the related party line of credit.

As a result of this, the Company's rolling twelve-month total funded debt to EBITDA ratio has decreased by 62% since December 31, 2016 and the Company's normalized working capital has improved by \$1.3 million since December 31, 2016.



(1) Senior debt includes the related party line of credit and the senior credit facility with the bank. It does not include truck debt.

## **Company Strategy**

The Company's strategy is to:

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

### **1. Expanding the Location Footprint**

The Company has a dual pronged approach to footprint growth:

- (a) Utilizing a franchise and licencing model. This model provides Redishred with royalty and other 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.
- (b) Utilizing an acquisition model. In 2017 the Company commenced on a program to acquire independent shredding operations in adjacent and available markets. The first of these acquisitions occurred in Buffalo, New York.

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 western 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

<b>Corporate Location</b>	<b>Markets Served</b>	<b>Operating Since</b>	<b>Corporately Operating Since</b>
Syracuse, NY	Syracuse	March 2004	May 2010
Buffalo, NY	Buffalo and Rochester, NY	October 2017	October 2017
Albany, NY	Albany and the Hudson River Valley	April 2003	July 1 2010
Milwaukee, WI	Milwaukee, Madison and Racine	August 2003	January 2012
New York City, NY	New York City, Westchester, Rockland, Dutchess and Putnam Counties, Bergen County, NJ, Staten Island and Long Island	January 2008	January 2011
Miami, FL	Miami, Fort Lauderdale and Palm County	June 2008	January 2014
Charlotte, NC	Charlotte, Statesville, Ashville, and Rock Hill, SC	April 2006	July 2013
N. Virginia, VA	Washington, DC suburbs including Arlington, Alexandria, Tysons, Reston and Dulles	July 2008	April 2017

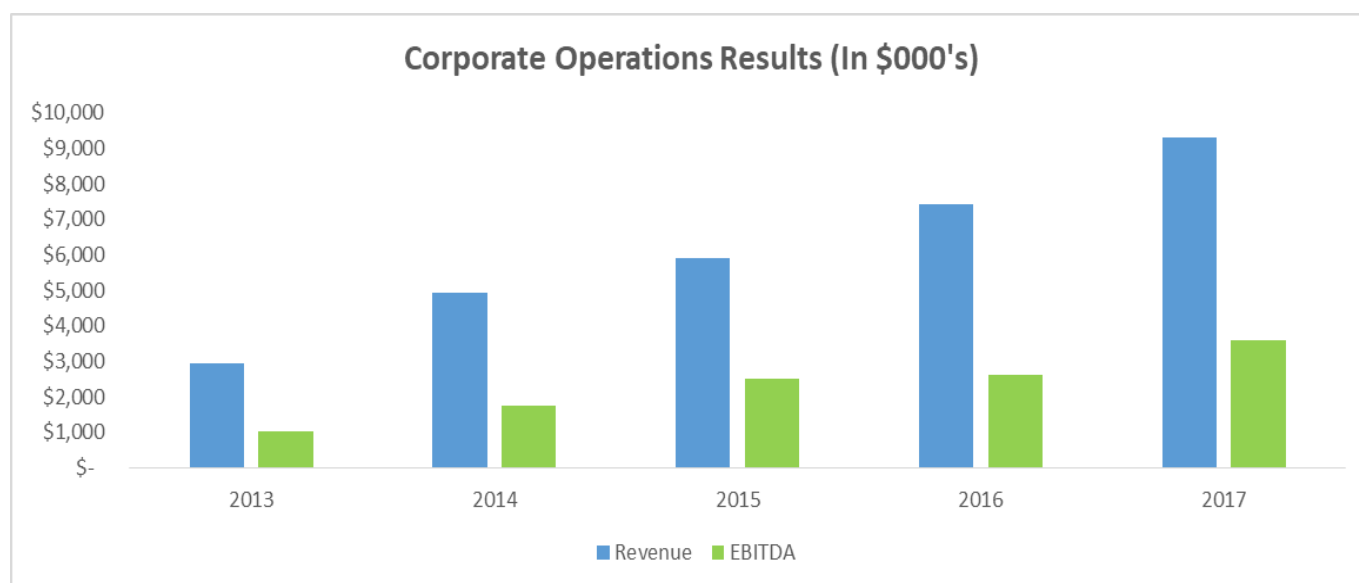
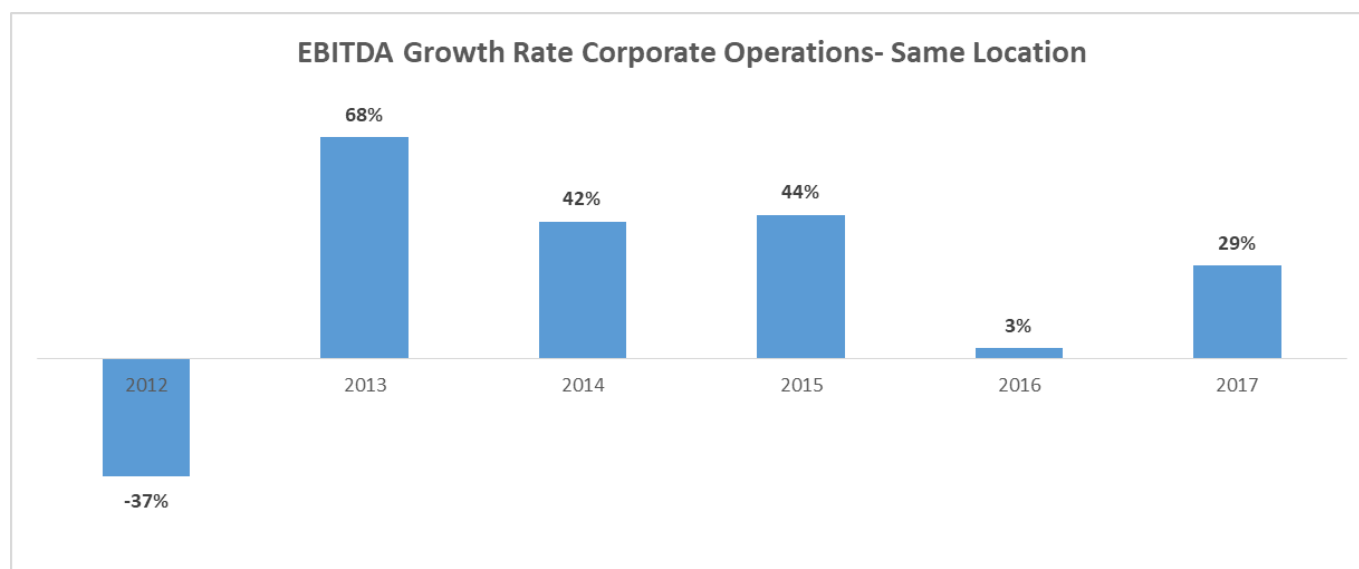
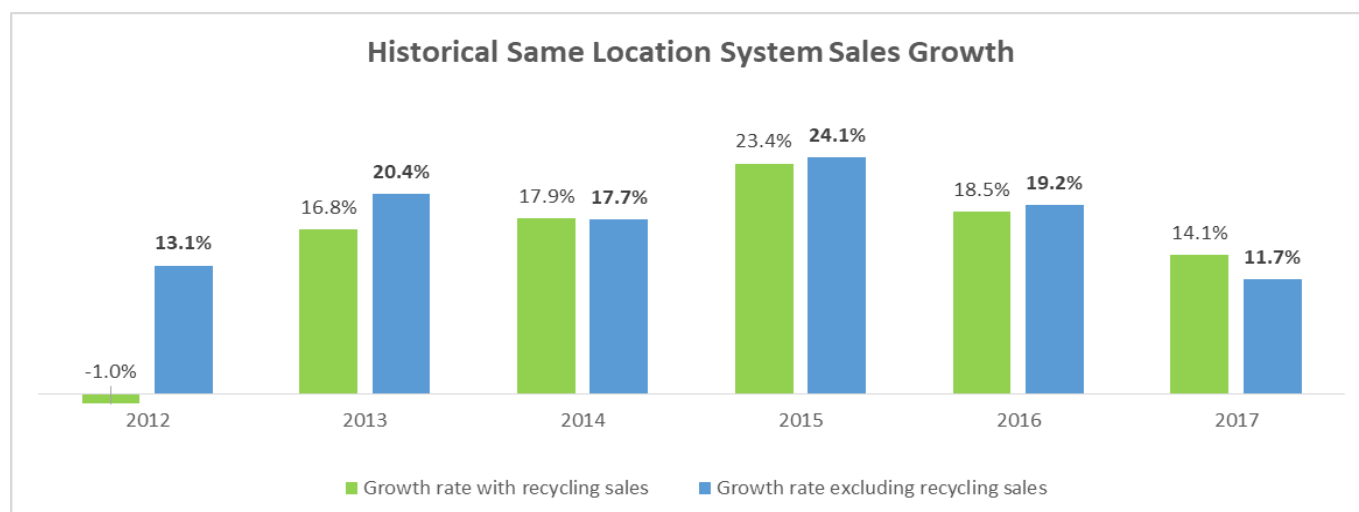
## **2. Maximize Same Location Revenue and Earnings**

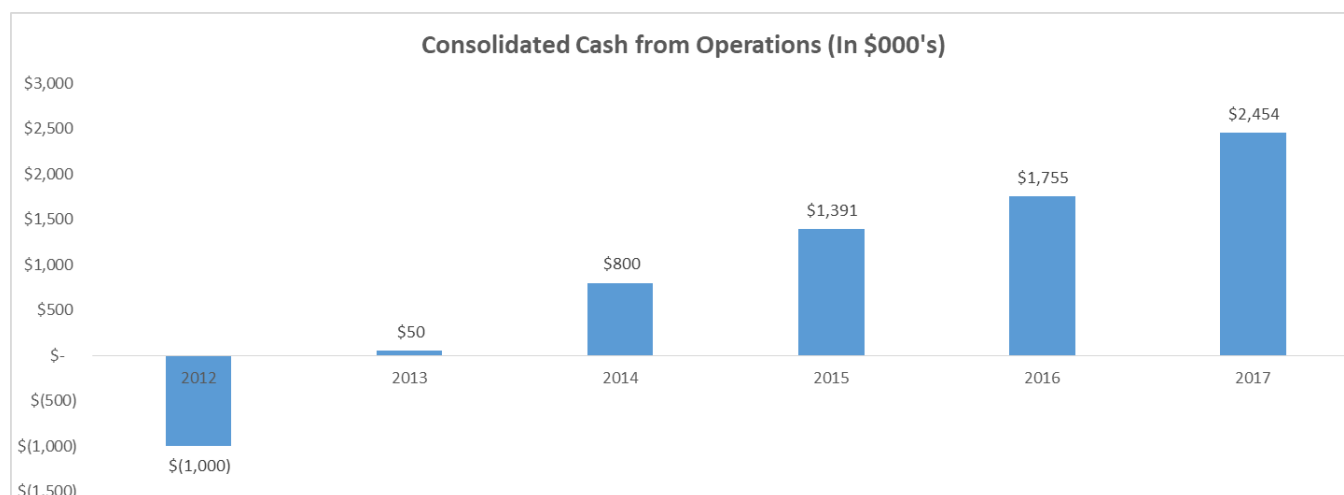
Management will focus on three key areas to drive same location revenue and earnings:

- (1) maximizing recurring revenue and earnings for franchisees and corporate locations 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 6 years, Redishred has seen an average increase of 18% per year in same location system revenue (excluding recycling revenue), and an average increase of 25% per year in same location corporate store EBITDA. This has led to continued annual increases in consolidated cash flows from operations.







### **3. Driving Depth in existing Corporate Markets**

Redishred's plan is to conduct acquisitions in existing and adjacent markets 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 Mississauga head office.

### **Performance Compared to 2017 Targets**

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

<b>2017 Target</b>	Growth of 12% to \$27.5M USD.
<b>2017 Performance</b>	<p>Redishred achieved its target.</p> <p>Redishred's same location service system sales grew by 12% in 2017 over 2016, achieving \$27.5M USD.</p> <p>Same location scheduled sales grew by 13% and same location unscheduled sales grew by 10% over 2016.</p>

#### **Consolidated EBITDA from existing operations<sup>(2)</sup>:**

<b>2017 Target</b>	Earn EBITDA of \$2.8M from existing locations, growing by 18% over 2016.
<b>2017 Performance</b>	<p>Redishred exceeded its target when normalizing EBITDA.</p> <p>Redishred attained \$2.7M in EBITDA from existing operations, growing 12% over 2016.</p> <p>Redishred attained \$2.9M in normalized EBITDA (excluding one-time costs related to options issued) in 2017, growing 16% over 2016.</p>

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

<b>2017 Target</b>	At least \$2.0M.
<b>2017 Performance</b>	Redishred exceeded its target when normalizing operating income.  During 2017, Redishred earned \$1.8M in consolidated operating income from existing operations. The Company attained \$2.1M in normalized operating income after adjusting for one-time stock based compensation expense. Normalized operating income grew 9% over 2016.

**Franchise Development:**

<b>2017 Target</b>	Award between two and four new franchised locations per annum.
<b>2017 Performance</b>	Redishred did not achieve its target. During 2017, the Company did not award any new franchise locations. Redishred is actively pursuing franchise opportunities.

**Expand by way of Accretive Acquisitions:**

<b>2017 Target</b>	Conduct between \$3M and \$4M of acquisitions.
<b>2017 Performance</b>	Redishred did not achieve its target.  On March 31, 2017, the Company purchased the Proshred Northern Virginia franchise for CAD\$1.4M. On September 30, 2017, the Company purchased a small Buffalo, NY business, which is operated out of the Syracuse, NY office. Subsequent to year-end, on April 2, 2018, the Company purchased the Shred Con business in upstate New York for CAD\$684,000. Redishred is actively pursuing acquisitions.

(1) Service related sales excludes recycling sales.

(2) Existing operations include the existing corporate operations, the franchise system and the existing infrastructure to support the existing locations. It does not include the North Virginia acquisition which was purchased on March 31, 2017.

## 2018 and Longer-term Targets

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

<b>2018 Target</b>	Growth of 10% to \$30.25M USD.
<b>Longer-term target</b>	Growth between 8% and 10% per annum.

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

<b>2018 Target</b>	Attain EBITDA of \$3.3M from existing locations, growing by 14% over 2017 normalized EBITDA.
<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>2018 Target</b>	Attain operating income of \$2.3M from existing operations, growing by 10% over 2017 normalized operating income.
<b>Longer-term target</b>	Grow existing Operating Income by 8% to 10% per annum.

### Franchise Development:

<b>2018 Target</b>	Open two to four new markets in the United States by way of franchising.
<b>Longer-term target</b>	Continue to add at least two new markets per annum.

### Expand by way of Accretive Acquisitions:

<b>2018 Target</b>	Conduct between \$3M and \$4M of acquisitions.
<b>Longer-term target</b>	Increase the Corporately operated portfolio from 7 to 12 locations by 2020.

(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.

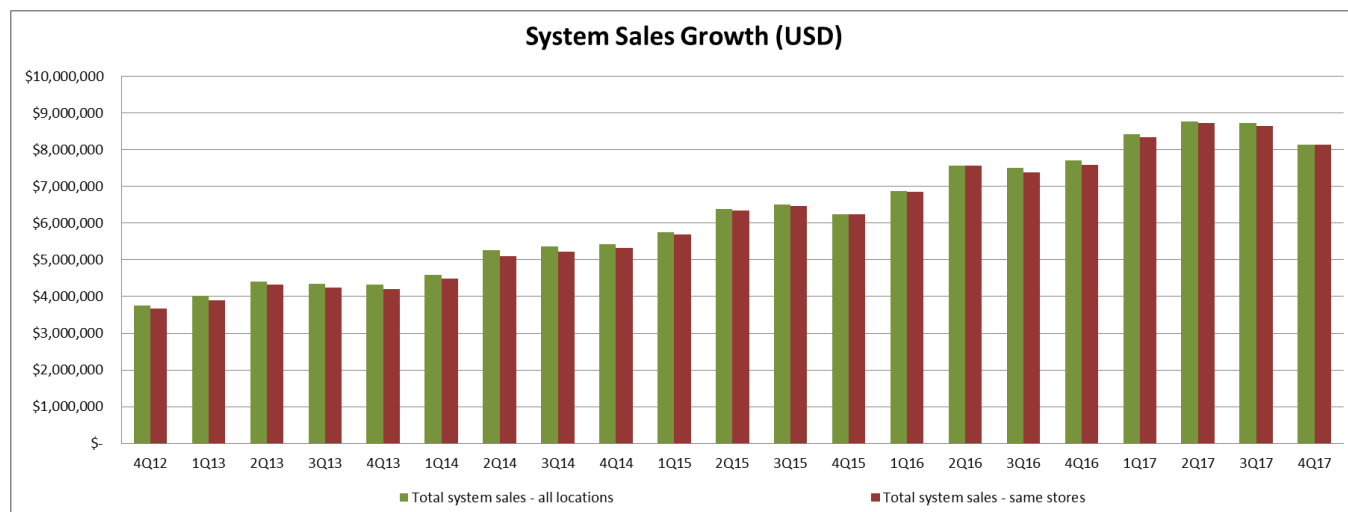
## System Sales

Franchisees and corporate 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:

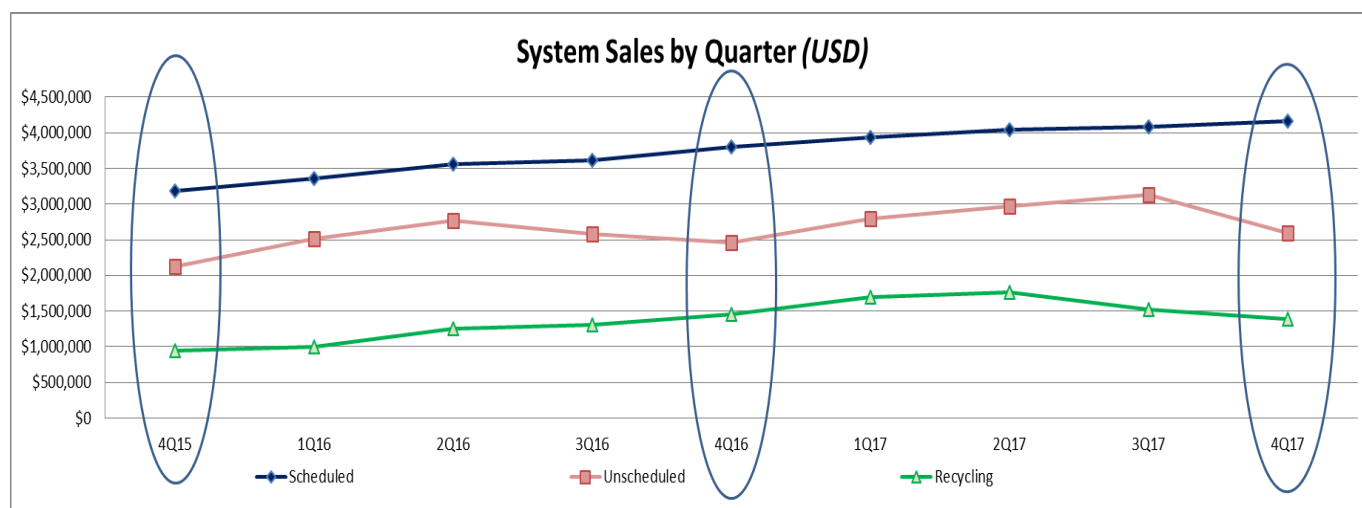
For the years ended December 31,	2017	2016	% Change
Total North American operating locations at period end	29	29	0%
Total system sales (USD)	\$ 34,070,237	\$ 29,673,455	15%
Same location total system sales (USD)	\$ 33,869,349	\$ 29,498,214	15%
Total system sales (CDN)	\$ 44,686,989	\$ 39,326,230	14%

### System Sales Trend:

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



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



For the year ended December 31, 2017, service related system sales grew by US\$3,036,842, a 12% increase over 2016.

#### 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 13% in 2017 over 2016.

For the years ended December 31,	2017 \$	2016 \$	% Change
Scheduled service sales (USD)	<b>16,216,690</b>	14,340,536	13%
Same store scheduled service sales (USD)	<b>16,170,921</b>	14,340,536	13%

#### 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. During the year ended December 31, 2017, unscheduled sales reached a record high of \$11,490,760 growing 11% over 2016.

For the years ended December 31,	2017 \$	2016 \$	% Change
Unscheduled service sales (USD)	<b>11,490,760</b>	10,330,072	11%
Same store unscheduled service sales (USD)	<b>11,378,721</b>	10,330,072	10%

**REDISHRED CAPITAL CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2017**

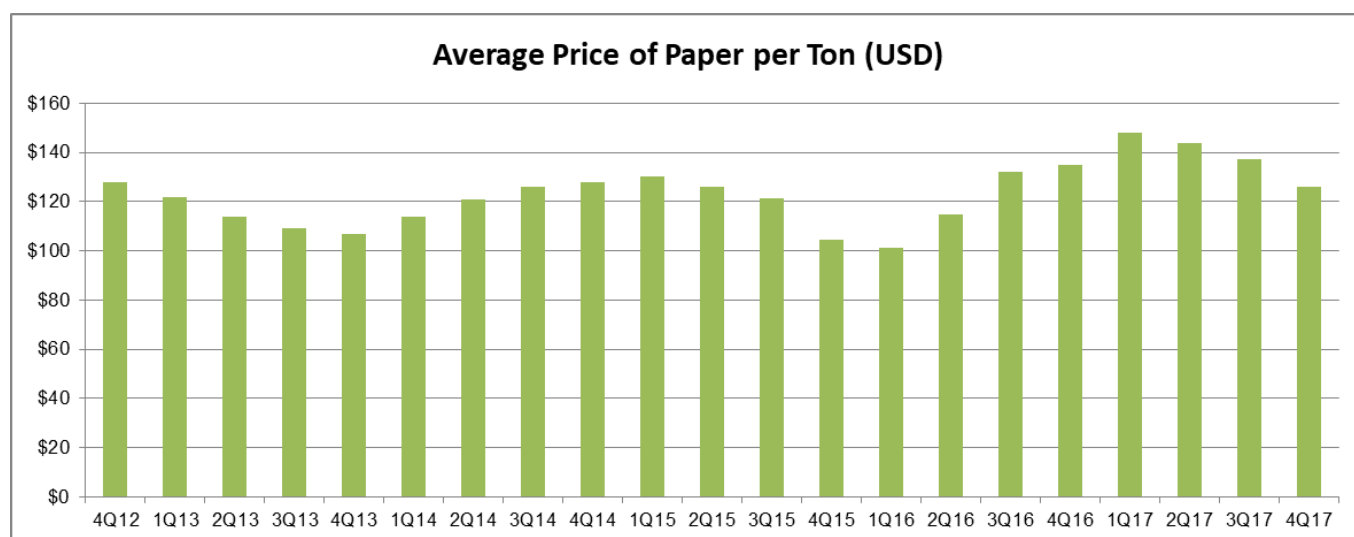
Recycling sales:

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,	2017	2016	% Change
	\$	\$	
Recycling sales (USD)	<b>6,362,787</b>	5,002,847	27%
Same store recycling sales (USD)	<b>6,319,707</b>	5,002,847	26%

Historical Pricing Trends:

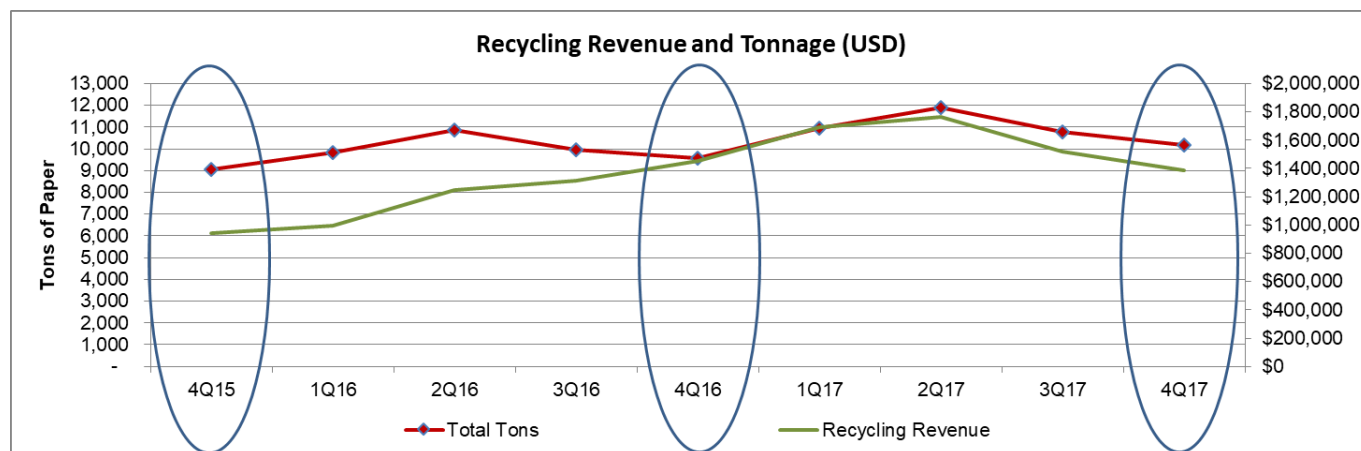
During the 1<sup>st</sup> quarter of 2017, the average paper prices in the Proshred system reached a 6 year high. Since then, the paper prices in the Proshred system have been declining on average 5% per quarter. The ending result has been that the average paper price in the Proshred system grew 15% in 2017 over 2016. The average paper price in the Proshred system was US\$139 per ton in 2017, in comparison to US\$121 per ton in 2016.



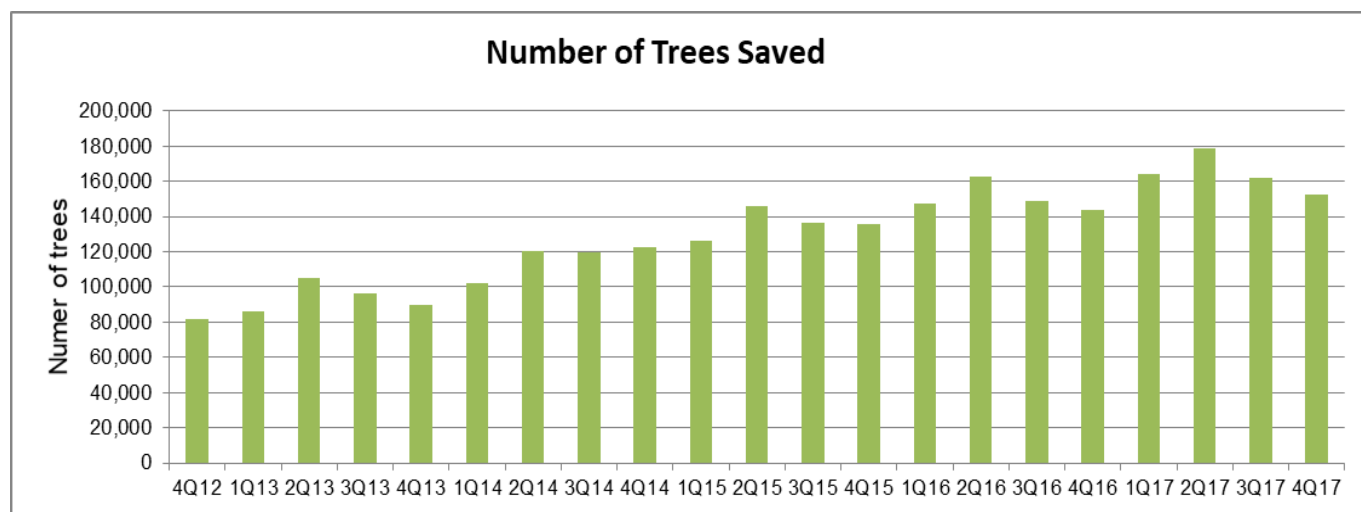
**REDISHRED CAPITAL CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017**

Historical Volume of Paper:

During 2017, the system shred and recycled 9% more paper than in 2016, driving recycling revenues upwards. The Proshred system shred and recycled 43,800 tons of paper during 2017 (40,000 – 2016), which equates to 657,000 trees being saved (603,000 – 2016).<sup>(1)</sup>

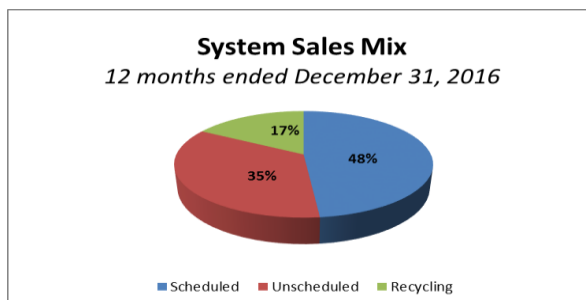
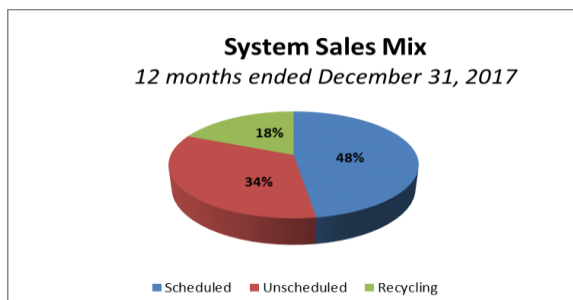


(1) The estimated amount of paper that can be produced from a tree has been conservatively estimated by management based on information taken from Conservatree.org.



(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

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 2017 grew 7% over 2016 due to increased system sales, including scheduled, unscheduled and recycling system sales.

For the years ended December 31,	<b>2017</b>	<b>2016</b>	<b>% Change</b>
	<b>\$</b>	<b>\$</b>	
<b>In CDN:</b>			
Franchise and license fees	<b>13,328</b>	238,355	(94)%
Royalty and service fees	<b>2,008,195</b>	1,879,438	7%
Total revenue	<b>2,021,523</b>	2,117,793	(5)%

For the years ended December 31,	<b>2017</b>	<b>2016</b>	<b>% Change</b>
	<b>\$</b>	<b>\$</b>	
<b>In USD:</b>			
Franchise and license fees	<b>10,252</b>	179,850	(94)%
Royalty and service fees	<b>1,544,766</b>	1,418,123	9%
Total revenue	<b>1,555,018</b>	1,597,973	(3)%

The Company earns all franchising and licensing related revenues in US dollars, which are translated at the average exchange rate for the period.

## Corporate Locations

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 year ended December 31, 2017, total corporate location revenues grew by 24% over 2016. The Company also increased EBITDA and operating income by 38% and 32%, respectively, over 2016. Non-same corporate location results include the Northern Virginia results for the nine months ended December 31, 2017 (April 1, 2017 – December 31, 2017). Included in operating costs below is a non-recurring consulting fee of \$65,000 paid in Northern Virginia.

In 2017, the Company changed its estimated useful lives of certain shredding vehicles located in the North East as a result of the physical wear and tear due to weather conditions. As a result, there was increased tangible depreciation in 2017 over 2016 which impacted operating income downwards.

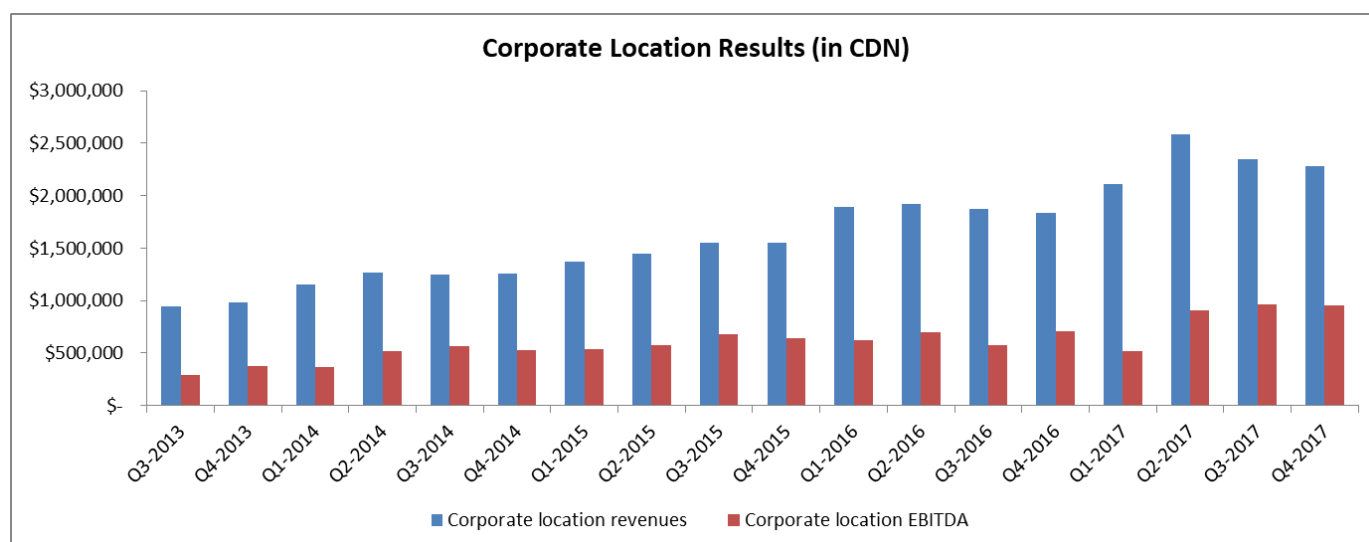
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(In CDN, In 000's)	Total Corporate Locations			Same Corporate Locations			Non-same Corporate Locations	
	2017	2016	% Change	2017	2016	% Change	2017	2016
For the years ended December 31,	\$	\$		\$	\$		\$	\$
Revenue:								
Shredding service	<b>7,826</b>	6,421	22%	<b>7,031</b>	6,421	10%	<b>795</b>	-
Recycling	<b>1,489</b>	1,061	40%	<b>1,302</b>	1,061	23%	<b>187</b>	-
Total revenue	<b>9,315</b>	7,482	24%	<b>8,333</b>	7,482	11%	<b>982</b>	-
Operating costs	<b>5,721</b>	4,874	17%	<b>4,979</b>	4,874	2%	<b>742</b>	-
EBITDA	<b>3,594</b>	2,608	38%	<b>3,354</b>	2,608	29%	<b>240</b>	-
% of revenue	<b>39%</b>	35%	4%	<b>40%</b>	35%	5%	<b>24%</b>	-
Depreciation – tangible assets	<b>944</b>	604	56%	<b>834</b>	604	38%	<b>110</b>	-
Corporate operating income	<b>2,650</b>	2,004	32%	<b>2,520</b>	2,004	26%	<b>130</b>	-
% of revenue	<b>28%</b>	27%	1%	<b>30%</b>	27%	3%	<b>13%</b>	-

Corporate location revenues and operating costs are generated in US dollars, which are translated at the average exchange rate for the period. Corporate location results denominated in US dollars are as follows:

(In USD, In 000's)	Total Corporate Locations			Same Corporate Locations			Non-same Corporate Locations	
	2017	2016	% Change	2017	2016	% Change	2017	2016
For the years ended December 31,	\$	\$		\$	\$		\$	\$
Total revenue	<b>7,165</b>	5,645	27%	<b>6,410</b>	5,645	14%	<b>755</b>	-
Operating costs	<b>4,401</b>	3,677	20%	<b>3,829</b>	3,677	4%	<b>572</b>	-
EBITDA	<b>2,764</b>	1,968	40%	<b>2,581</b>	1,968	31%	<b>183</b>	-
% of revenue	<b>39%</b>	35%	4%	<b>40%</b>	35%	5%	<b>24%</b>	-
Depreciation – tangible assets	<b>726</b>	456	59%	<b>641</b>	456	41%	<b>85</b>	-
Corporate operating income	<b>2,038</b>	1,512	35%	<b>1,940</b>	1,512	28%	<b>98</b>	-
% of revenue	<b>28%</b>	27%	1%	<b>30%</b>	27%	3%	<b>13%</b>	-

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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.

## Corporate Overhead

Corporate overhead operating expenses for the year ended December 31, 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. The Company has also expensed the development of an integrated Customer Relationship Management and Workflow management system that is expected to benefit franchised and corporate locations with increased sales and reduced processing time. Also included in operating expenses are ongoing stock exchange listing and regulatory costs, professional services, occupancy costs and management salaries and benefits. During 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, resulting in a one-time non-cash expense of \$276,320. The Company closely monitors and controls all operating expenses.

Corporate overhead expenses of the Company are broken down as follows:

For the years ended December 31,

**In CDN:**

Salaries

One-time costs

General, administrative and marketing

Broker fees

Total operating expenses

Total normalized operating expenses<sup>(1)</sup>

	2017	2016	% Change
	\$	\$	
Salaries	1,227,134	1,075,154	(14)%
One-time costs	276,320	148,362	(86)%
General, administrative and marketing	1,206,175	1,054,487	(14)%
Broker fees	-	57,876	100%
Total operating expenses	2,709,629	2,335,879	(16)%
Total normalized operating expenses <sup>(1)</sup>	2,433,309	2,187,517	(11)%

(1) Normalized operating expenses excludes one-time costs related to the issuance of options relating to the equity financing conducted in the first quarter of 2017.

## **Other Income and Expenses**

### **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>2017</b>	<b>2016</b>	<b>% Change</b>
	<b>\$</b>	<b>\$</b>	
<b>In CDN:</b>			
Depreciation – tangible assets	<b>22,569</b>	9,323	142%
Amortization – intangible assets	<b>578,884</b>	534,556	8%

### **Amortization – Corporate locations**

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

Depreciation and amortization are as follows:

For the years ended December 31,	<b>2017</b>	<b>2016</b>	<b>% Change</b>
	<b>\$</b>	<b>\$</b>	
<b>In CAD:</b>			
Amortization – intangible assets	<b>394,928</b>	389,915	1%
<b>In USD:</b>			
Amortization – intangible assets	<b>303,791</b>	294,209	3%

### **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**

	<b>2017</b>	<b>2016</b>	<b>% Change</b>
	<b>\$</b>	<b>\$</b>	
December 31 close rate	<b>1.2570</b>	1.3427	(6)%
Average rate	<b>1.3000</b>	1.3253	(2)%

Foreign exchange (loss) gain was as follows:

For the years ended December 31,	<b>2017</b>	<b>2016</b>	<b>% Change</b>
	<b>\$</b>	<b>\$</b>	
Realized foreign exchange gain	<b>554,560</b>	714,083	(22)%
Unrealized foreign exchange (loss)	<b>(847,607)</b>	(644,765)	(31)%
Foreign exchange (loss) gain	<b>(293,047)</b>	69,318	(523)%

## 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.

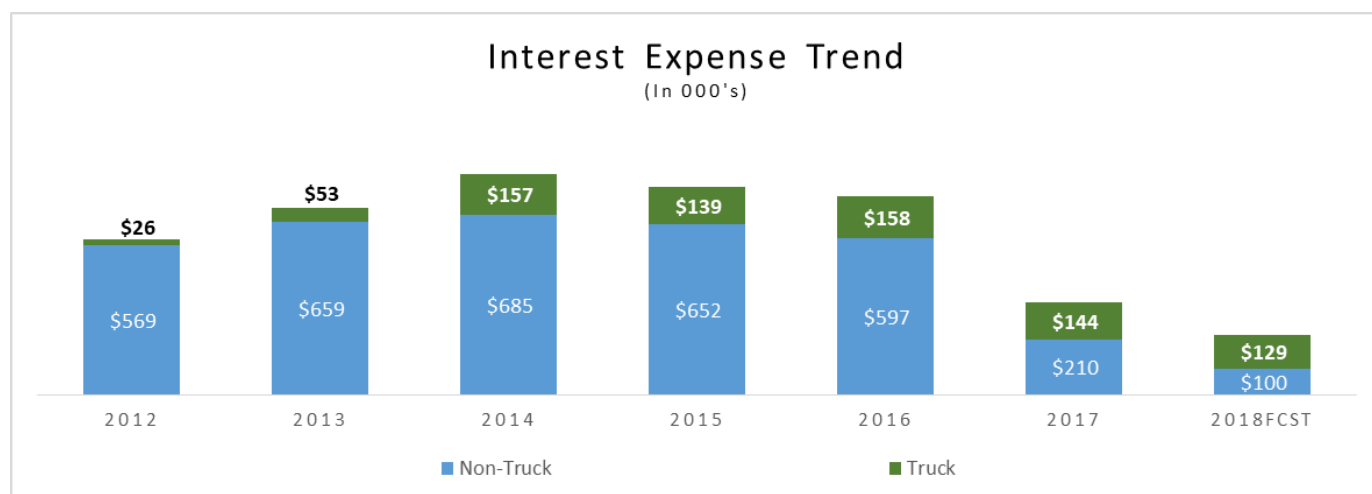
Interest expense relates to the following:

- the Company's Bank of Montreal ("BMO") term loan, which currently bears interest at 5.95% per annum,
- the Company's related party line of credit, which bears interest at 10% per annum, and
- truck loan and lease agreements, which bear interest at 5.7% to 7.9% per annum.

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

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

Interest expense decreased in 2017 in comparison to 2016 as a result of the principal repayments made on the line of credit, including a principal repayment of \$3 million in February 2017. In addition, on July 28, 2017, the Company used \$2.0 million of the BMO term loan to repay in full the outstanding balance on the related party line of credit. This will further reduce interest expense going forward.



Interest income and interest expense is as follows:

For the years ended December 31,	2017	2016	% Change
	\$	\$	
Interest income	7,376	7,861	(6)%
Interest expense	(354,230)	(755,587)	53%

## Income Tax

During the year ended December 31, 2017, the Company booked an income tax recovery of \$490,889, which consists of a deferred income tax recovery of \$667,216 and a current income tax expense of \$176,327. The Company recognized a deferred tax asset during the year, part of which is related to unused non-capital loss carry-forwards as the Company expects to have future taxable income against which the unused tax losses can be utilized.

## Reconciliation of EBITDA to Net Income

For the years ended December 31,	2017	2016	% Change
	\$	\$	
EBITDA	<b>2,905,511</b>	2,389,484	22%
Less: depreciation – tangible assets	<b>(969,287)</b>	(614,301)	(58)%
Operating income	<b>1,936,224</b>	1,775,183	9%
Less: interest expense	<b>(354,230)</b>	(755,587)	53%
Add: interest income	<b>7,376</b>	7,861	(6)%
Operating income less net interest expense	<b>1,589,370</b>	1,027,457	55%
Less: amortization - intangible assets	<b>(973,812)</b>	(924,470)	(5)%
Income before foreign exchange, (loss) gain on sale of assets and income tax	<b>615,558</b>	102,987	498%
Foreign exchange (loss) gain	<b>(293,047)</b>	69,318	(523)%
Gain (loss) on sale of assets	<b>3,450</b>	(136,016)	103%
Income tax recovery	<b>490,889</b>	137,599	257%
Net income	<b>816,850</b>	173,888	370%

For the year ended December 31, 2017, income before foreign exchange, gain on sale of assets and income tax increased by 498% over the prior year comparative period. Net income for 2017 increased by 370% over 2016. The growth was a result of operating income growth in the corporate locations, the reduction in interest expense and the income tax recovery recorded.

## Selected Annual Information

	2017	2016	2015
	\$	\$	\$
Total Revenue	11,336,499	9,599,303	7,678,025
Net income	816,850	173,888	892,239
Operating income less net interest expense per share – basic and diluted	0.033	0.035	0.036
Net income per share – basic and diluted	0.01	0.00	0.03
Total assets	11,505,832	10,001,400	10,713,530
Total non-current financial liabilities	2,568,572	2,667,760	8,043,134
Dividends	-	-	-

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**Selected Quarterly Results**

As shredding customers are typically serviced during business days, the quarterly system sales are impacted by the number of business days in any given quarter. This then impacts the Company's royalty fees and corporate revenues. The Company also experiences seasonality for unscheduled shredding with the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of every year typically being busier than the 1<sup>st</sup> and 4<sup>th</sup> quarters of every year.

(in CDN except where noted)	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$
System sales (USD)	8,145,441	8,731,719	8,772,960	8,420,117	7,719,401	7,511,789	7,576,734	6,865,531
<b>Consolidated Performance</b>								
Revenue	2,765,868	2,834,413	3,101,767	2,634,451	2,357,247	2,418,386	2,475,518	2,348,152
EBITDA	534,843	864,596	698,592	807,480	278,776	740,748	753,356	616,604
Normalized EBITDA <sup>(2)</sup>	534,843	864,596	974,912	807,480	427,418	740,748	753,356	616,604
Operating Income	272,926	609,446	434,200	619,652	129,673	580,678	592,385	472,447
Normalized Operating Income <sup>(2)</sup>	272,926	609,446	710,520	619,652	256,137	580,678	592,385	472,447
<b>Corporate Location Performance</b>								
Revenue	2,280,150	2,349,342	2,579,361	2,106,123	1,876,057	1,870,736	1,842,693	1,892,024
EBITDA	768,539	952,118	967,171	905,789	514,917	707,997	688,142	696,514
Operating Income	522,254	701,157	705,547	723,055	353,049	547,927	549,259	552,357
Income (loss) before taxes from continuing operations	42,533	(46,404)	(60,640)	390,472	(182,167)	104,823	191,569	(77,936)
Income (loss) attributable to owners of the parent	606,208	(68,117)	(108,111)	386,870	(17,386)	75,589	188,267	(72,582)
Basic and diluted net income (loss) per share	.01	(.00)	(.00)	.00	(.00)	.00	.01	(.00)

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

(2) Normalized EBITDA and operating income excludes one-time costs incurred in Q2-2017 related to the issuance of options relating to the equity financing conducted in the first quarter of 2017. Normalized EBITDA and operating income for Q4-2016 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.

## Q4 Financial Highlights

(in 000's)	2017	2016	% change
	\$	\$	
<b>System Sales Performance – in USD</b>			
System sales (total and same location)	<b>8,145</b>	7,719	6%
<i>Percentage scheduled</i>	<b>51%</b>	49%	
<hr/>			
<b>Operating Performance – in CDN</b>			
<u>Consolidated results:</u>			
Revenue	<b>2,766</b>	2,357	17%
EBITDA	<b>535</b>	279	92%
<i>As a percentage of revenue</i>	<b>19%</b>	11%	
Operating Income	<b>273</b>	130	110%
<i>As a percentage of revenue</i>	<b>10%</b>	6%	
<hr/>			
<u>Corporate location results:</u>			
Revenue	<b>2,280</b>	1,876	22%
EBITDA	<b>768</b>	515	49%
<i>As a percentage of revenue</i>	<b>34%</b>	27%	
Operating income	<b>522</b>	353	48%
<i>As a percentage of revenue</i>	<b>23%</b>	19%	
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## Q4 System Sales Results

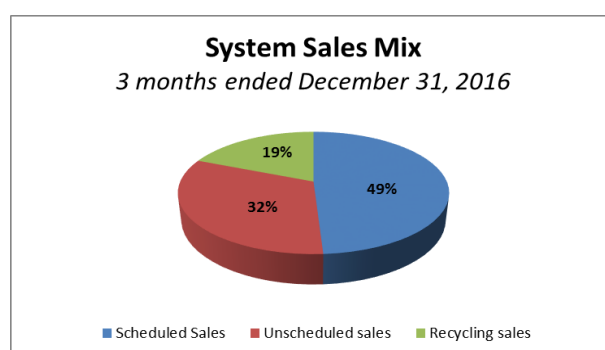
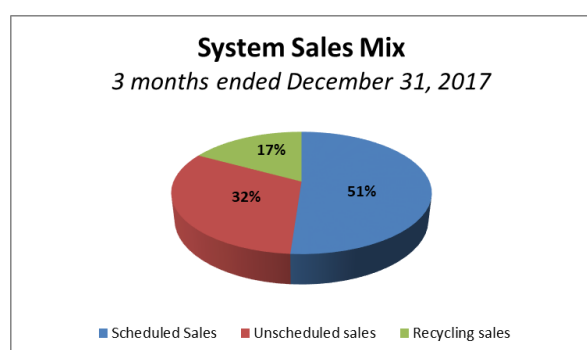
During the fourth quarter, scheduled sales reached a record high of US\$4,165,195. Service system sales, were US\$6,757,384, for the fourth quarter of 2017, growing by 8% over the fourth quarter of 2016.

During the three months ended December 31, 2017, recycling sales declined by 4% over the same period in 2016. This was a result of the decrease in the price of paper in the Proshred system by 7% in the fourth quarter of 2017 over the fourth quarter of 2016. The average price of paper in the Proshred system in the fourth quarter of 2017 was US\$126 per ton, versus US\$135 per ton in the fourth quarter of 2016. The Proshred system shred and recycled 10,100 tons of paper during the fourth quarter of 2017 (fourth quarter of 2016 – 9,500), which equates to 153,000 trees being saved (fourth quarter of 2016 – 144,000).

For the 3 months ended December 31,

	<b>2017</b>	<b>2016</b>	<b>% Change</b>
Total locations	<b>29</b>	29	0%
Total system sales (USD)	<b>\$8,145,441</b>	\$7,719,401	6%
Total system sales (CDN)	<b>\$10,352,856</b>	\$10,297,681	1%
Total scheduled service sales (USD)	<b>\$4,165,195</b>	\$3,805,652	9%
Total unscheduled service sales (USD)	<b>\$2,592,188</b>	\$2,464,415	5%
Total recycling sales (USD)	<b>\$1,388,058</b>	\$1,449,334	(4)%

*System Sales Mix:*



## **Q4 Franchising and Licensing Results**

During the fourth quarter of 2017, the Company's royalties were flat in comparison to the fourth quarter of 2016. With the acquisition of the Northern Virginia franchise on March 31, 2017, the Company now earns corporate revenue and no longer earns royalty fees from that location.

For the 3 months ended December 31,	<b>2017</b>	2016	% Change
	<b>\$</b>	<b>\$</b>	
<b>In CDN:</b>			
Franchise and license fees	<b>7,233</b>	-	100%
Royalty and service fees	<b>478,486</b>	481,190	(1)%
Total	<b>485,719</b>	481,190	(1)%
<b>In USD:</b>			
Franchise and license fees	<b>5,564</b>	-	100%
Royalty and service fees	<b>368,066</b>	370,283	(1)%
Total	<b>373,630</b>	370,283	(1)%

## **Q4 Corporate Overhead**

During the three months ended December 31, 2017, salaries increased as a result of the investments in attracting and retaining stronger senior management. General, administrative and marketing costs increased as a result of increased professional fees and travel costs. The Company closely monitors and controls all operating expenses.

For the 3 months ended December 31,	<b>2017</b>	2016	% Change
	<b>\$</b>	<b>\$</b>	
Salaries	<b>358,851</b>	331,089	(8)%
One-time costs	-	148,642	100%
General, administrative and marketing	<b>353,896</b>	244,968	(44)%
Total operating expenses	<b>712,747</b>	724,699	1%

## **Q4 Corporate location results**

During the three months ended December 31, 2017, the corporate location revenues grew by 22% and EBITDA grew by 49% over the three months ended December 31, 2016. Same store corporate locations grew sales by 5% and EBITDA grew by 36% over Q4-2016. Non-same corporate locations include the Northern Virginia results.

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The corporate location results are as follows:

(In CDN, In 000's) For the 3 months ended December 31,	Total Corporate Locations			Same Corporate Locations			Non-same Corporate Locations	
	2017	2016	% Change	2017	2016	% Change	2017	2016
	\$	\$		\$	\$		\$	\$
Revenue:								
Shredding service	1,955	1,604	22%	1,694	1,604	6%	261	-
Recycling	325	272	19%	276	272	1%	49	-
Total revenue	2,280	1,876	22%	1,970	1,876	5%	310	-
Operating costs	1,512	1,361	11%	1,271	1,361	7%	241	-
EBITDA	768	515	49%	699	515	36%	69	-
% of revenue	34%	27%	7%	35%	27%	8%	23%	-
Depreciation – tangible assets	246	162	52%	210	162	30%	36	-
Corporate operating income	522	353	48%	489	353	38%	33	-
% of revenue	23%	19%	4%	25%	19%	6%	11%	-

(In USD, In 000's) For the 3 months ended December 31,	Total Corporate Locations			Same Corporate Locations			Non-same Corporate Locations	
	2017	2016	% Change	2017	2016	% Change	2017	2016
	\$	\$		\$	\$		\$	\$
Total revenue	1,754	1,416	24%	1,516	1,416	7%	238	-
Operating costs	1,163	1,026	13%	978	1,026	5%	185	-
EBITDA	591	390	52%	538	390	38%	53	-
% of revenue	34%	27%	7%	35%	27%	8%	23%	-
Depreciation – tangible assets	189	121	56%	162	121	34%	27	-
Corporate operating income	402	269	50%	376	269	40%	26	-
% of revenue	23%	19%	4%	25%	19%	6%	11%	-

**Q4 Other Income and Expenses**

	2017	2016	% Change
	\$	\$	
Interest Income	1,251	1,731	(28)%
Interest expense	(69,741)	(193,429)	64%
Amortization – intangible assets	(239,859)	(259,021)	7%

In the fourth quarter of 2017, interest expense declined by 64% over the fourth quarter of 2016 as a result of the principal repayments made on the related party line of credit.

## **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 December 31,	2017	2016	% Change
Working capital (Normalized) <sup>(1)</sup>	<b>\$1,411,259</b>	\$115,641	1120%
Total assets	<b>\$11,505,832</b>	\$10,001,400	15%
Total liabilities	<b>\$4,815,388</b>	\$9,482,882	49%
Total current liabilities	<b>\$2,246,816</b>	\$6,815,122	67%
Debt to total assets ratio	<b>0.42</b>	0.95	56%
Normalized Fixed Charge Coverage ratio – rolling 12 months	<b>2.30</b>	1.18	95%
Normalized Total Funded Debt to EBITDA ratio – rolling 12 months	<b>1.28</b>	3.39	62%

(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 related party line of credit. As of December 31, 2017, the Company has \$2 million available for use on its related party line of credit, \$1 million available for use on its BMO term loan and \$1 million available for use on its BMO operating line of credit.

As a result of the \$3 million principal repayment made, the Company's rolling twelve-month fixed charge coverage has increased by 95% and the total funded debt to EBITDA ratio has decreased by 62% since December 31, 2016. The Company's normalized working capital has improved by \$1.3 million 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.

### *Bank indebtedness*

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 2.5%.

As at December 31, 2017, the Company has advanced \$2 million on the non-revolving term loan.

### *Related party line of credit*

On July 17, 2017, the Company replaced its original related party line of credit facility with a new line of credit for a maximum amount of \$2.0 million. The new line of credit facility has a five year term maturing on July 16, 2022 and bears interest at a fixed rate of 10% per annum. The line of credit is secured by a second in priority general security agreement over the Company's assets. As at December 31, 2017, the facility has not been drawn upon.

The Company has the following operating lease commitments:

	\$
Less than 1 year	463,704
Between 1 and 5 years	1,230,146
Over 5 years	124,009
<b>Total</b>	<b>1,817,859</b>

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.

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The Company did not declare any dividends during the year.

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

	<b>Common stock</b>		<b>Warrants</b>		<b>Total</b>	
	<b>Number</b>	<b>\$</b>	<b>Number</b>	<b>\$</b>	<b>Number</b>	<b>\$</b>
Balance December 31, 2017	47,502,587	13,431,785	1,652,150	670,793	49,154,737	14,102,578
Balance December 31, 2016	28,939,658	8,590,995	–	–	28,939,658	8,590,995

The following table summarizes the movements in the Company's common shares during the year ended December 31, 2017:

	<b>Common Stock Number</b>
Opening balance, January 1, 2017	28,939,658
Equity raise closed on January 23, 2017	13,447,669
Debenture conversion on January 23, 2017	1,250,002
Debt conversion on January 23, 2017	2,140,258
Options exercised during the year	1,575,000
Warrants exercised during the year	150,000
Closing balance, December 31, 2017	47,502,587

## Capital Assets

As at,	<b>December 31, 2017</b>	December 31, 2016	% Change
	<b>\$</b>	<b>\$</b>	
Net book value	<b>3,772,234</b>	3,222,547	17%

At December 31, 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 no accounts receivable balance due from this franchise at December 31, 2017 (2016 - \$580). During the year ended December 31, 2017, the Company earned royalties, service fees and interest income of \$128,875 (2016 - \$189,333) from this franchise. Included in notes receivable from the franchisees is a three year note receivable balance of \$19,760, which has 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. On July 17, 2017, the Company replaced its original related party line of credit facility with a new line of credit for a maximum amount of \$2.0 million. The new line of credit facility has a five year term maturing on July 16, 2022 and bears interest at a fixed rate of 10% per annum. The line of credit is secured by a second in priority general security agreement over the Company's assets. As at December 31, 2017, the facility has not been drawn upon.

**REDISHRED CAPITAL CORP.  
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On December 31, 2012, the Company issued \$375,000 convertible, unsecured subordinated, debentures to certain members of the Company's Board of Director's. On January 23, 2017, the convertible debentures were converted to common shares

Included in selling, general and administrative expenses for the year ended December 31, 2017 are insurance premium amounts of \$24,084 (December 31, 2016 - \$15,039) 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**

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 may require additional capital to grow its operations. 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.

### *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.

#### *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.

#### *Tax Reform*

The Company may become subject to changing tax laws in multiple jurisdictions in the United States. The Company could be materially affected if there are changes in current tax regulations. The complexity of the enacted Tax Act by the US government on December 22, 2017 may result in risks of inaccurately interpreting and predicting its impact on the financial condition and results of the Company.

### **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, 2017, there were 47,502,587 issued and outstanding common shares, 1,194,000 options to acquire common shares and 1,652,150 warrants outstanding. During the year ended December 31, 2017, 1,575,000 stock options were exercised and 150,000 warrants were exercised (during the year ended December 31, 2016 – 55,000 stock options). There were 769,000 stock options granted during the year ended December 31, 2017 (for the year ended December 31, 2016 – 325,000). For the year ended December 31, 2017, the stock based compensation expense, amounted to \$293,989 (for the year ended December 31, 2016 – \$87,130).



### **Subsequent events**

On March 15, 2018, the Company granted 305,000 stock options to non-management Directors of the Company. The stock options were granted at a price of \$0.55 with a life of five years, expiring on March 14, 2023.

On April 2, 2018, the Company acquired the assets of the Shred Con business in upstate New York for a total purchase price of \$683,700. The asset acquisition included customer relationships, two on-site shredding vehicles and other equipment. The business will be operated out of the Syracuse, NY office. The Company conducted the acquisition to increase its long-term cash flows and expand its footprint in upstate New York.

On April 16, 2018, the Company granted 300,500 stock options to key management personnel. The stock options were granted at a price of \$0.61 with a life of five years, expiring on April 15, 2023.

Dated: April 18, 2018

