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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, 2018 and 2017, 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 2018 Annual Report are available on SEDAR at www.sedar.com. The discussions in this MD&A are based on information available as at April 15, 2019.

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; and
- (viii) the ability to continue to meet the Company's financial covenants it has with its banking institution.

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 2018 and 2017.
- **Consolidated EBITDA** is defined as earnings before interest, taxes, depreciation and amortization. EBITDA does not include gains or losses on sale of assets, foreign exchange gains or losses or other income.
- **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.

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 2018 the Proshred system achieved \$39.8 million USD in System Sales (\$30.7 million USD through franchised/licensed locations and \$9.3 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. Management is focused on increasing this ratio, as generally, the higher the fixed charge coverage ratio, the lower the credit risk.
6. Normalized Total Funded Debt to EBITDA Ratio – this measures Redishred's leverage and its ability to pay all outstanding debt and assesses the Company's financial health and liquidity position. 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,	2018	2017	% change
System Sales Performance – in USD			
Total locations in the United States	30	29	3%
System sales	\$39,841	\$34,070	17%
Percentage scheduled	47%	48%	
System sales – same location	\$39,343	\$33,869	16%
Percentage scheduled	47%	48%	
For the years ended December 31,	2018	2017 ⁽¹⁾	% change
Consolidated Operating Performance – in CAD⁽³⁾			
Revenue	\$14,660	\$11,946	23%
EBITDA	\$3,516	\$3,145	12%
As a percentage of revenue	24%	26%	
Operating Income ⁽²⁾	\$2,340	\$2,176	8%
As a percentage of revenue	16%	18%	
Operating Income per weighted average share fully diluted	\$0.041	\$0.046	(11)%
For the years ended December 31,	2018	2017	% change
Corporate Location Performance – in CAD			
Revenue	\$12,015	\$9,315	29%
EBITDA	\$4,409	\$3,594	23%
As a percentage of revenue	37%	39%	
Operating income	\$3,267	\$2,650	23%
As a percentage of revenue	27%	28%	
As at December 31,	2018	2017	% change
Capital Management – in CAD			
Working capital	\$7,288	\$1,411	417%
Debt to total assets ratio	0.29	0.42	31%
Normalized Fixed Charge Coverage ratio – rolling 12 months	1.94	2.30	16%
Normalized Total Funded Debt to EBITDA ratio – rolling 12 months	1.69	1.28	32%

(1) Franchise and advertising fund revenues and costs have been restated with the adoption of the new accounting standard on a retrospective basis. The Consolidated financial statements for 2018 are prepared under the new standard. See the section "Changes in Accounting Standards" for further analysis. Certain amounts have been reclassified to conform to the current period's presentation.

(2) In 2018, operating income includes transitional and professional costs of \$160,953 associated with the acquisitions conducted.

(3) The consolidated operating performance results include advertising fund revenues and costs related to an advertising fund established to collect and administer funds contributed for use in advertising programs. See the section "Advertising Fund" for further analysis.

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 2018 Redishred's System Sales growth over 2017 was as follows:

Total System Sales increased by 17% (Same Store 16%)	
<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 15% (Same Store 15%)
Unscheduled increased by 12% (Same Store 11%)	Corporate location system sales increased by 29% (Same Store 9%)
Recycling increased by 31% (Same Store 29%)	

Corporate Location EBITDA

During 2018, EBITDA growth over 2017 was as follows:

Total locations:

EBITDA in USD and CAD increased by 23%

Same locations:

EBITDA in USD by 8% and in CAD increased by 7%

EBITDA margins in CAD remained strong at 37% however declined by 2% over the prior year. The decline was due to the investment in an additional four salespeople and increased management in two of our largest locations.

Consolidated EBITDA and Operating Income

During 2018, the Company's consolidated EBITDA and operating income increased by 12% and 8% respectively, over 2017. The EBITDA and operating income growth rates were impacted by the adoption of IFRS 15 (See the section "Changes in Accounting Standards"). The new accounting standard resulted in franchise fees and advertising fund revenue and expenses to be recorded for 2018 and 2017 that were not previously recognized in the Consolidated Statement of Income. Consolidated EBITDA and operating income, excluding the adjustments made for IFRS 15, increased by 16% and 14% respectively over 2017.

For the years ended December 31,	2018	2017	% change
	\$	\$	
EBITA including IFRS 15 adjustments	3,516	3,145	12%
Less: IFRS 15 adjustments	136	239	(43)%
EBITDA excluding IFRS 15 adjustments	3,380	2,906	16%
Operating income including IFRS 15 adjustments	2,340	2,176	8%
Less: IFRS 15 adjustments	136	239	(43)%
Operating income excluding IFRS 15 adjustments	2,204	1,937	14%

The primary driver of the growth in EBITDA and operating income was the inclusion of the three shredding operations acquired during 2018. EBITDA and operating income also includes costs related to the acquired shredding operations for a total of \$160,953, which represent 1% of the operating income margin. These costs included:

- (i) Legal fees
- (ii) Professional fees (accounting and valuation); and
- (iii) Transitional and integration costs.

Private Placement

During 2018 the Company completed a private placement of 18,333,334 common shares of the Company at a price of \$0.60 per common share for gross proceeds of \$11 million. The net proceeds of the private placement will be used to fund future growth initiatives including both acquisitions and organic growth, and for general corporate purposes. The \$11 million gross proceeds have been recorded net of transaction costs of \$797,023, which include broker commissions, legal and regulatory fees.

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 and 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.

Expanding the Location Footprint

The Company has a dual pronged approach to footprint growth:

- (a) Utilizing a franchise 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. During the year ended December 31, 2018, the Company acquired the assets of three businesses: Shred Con in upstate New York, On Guard in New York City and Safe Shredding in North New Jersey. In total the Company conducted \$7.8M CAD (\$6M USD) in acquisitions during 2018. Subsequent to year-end, the Company also acquired the assets of the Proshred Kansas City franchise and Secure E-Cycle for a total of \$9.8 CAD (\$7.5M USD).

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The Company's North American locations are as follows:

Franchised Location	Markets Served	Operating Since
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 ⁽¹⁾	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

(1) The Kansas City, MO location was purchased by Redishred on January 31, 2019 and will be corporately operated as of that date.

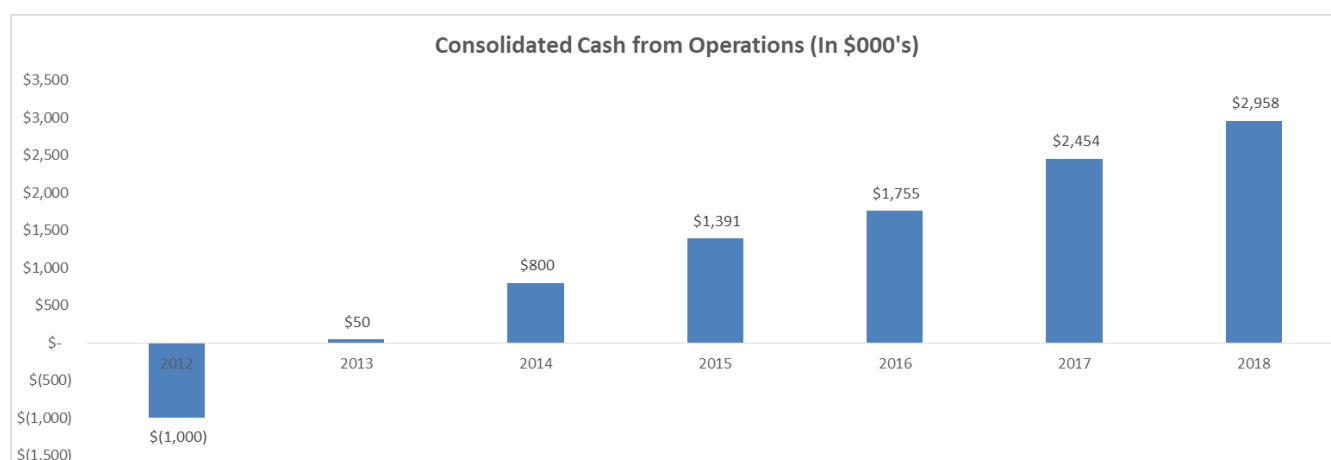
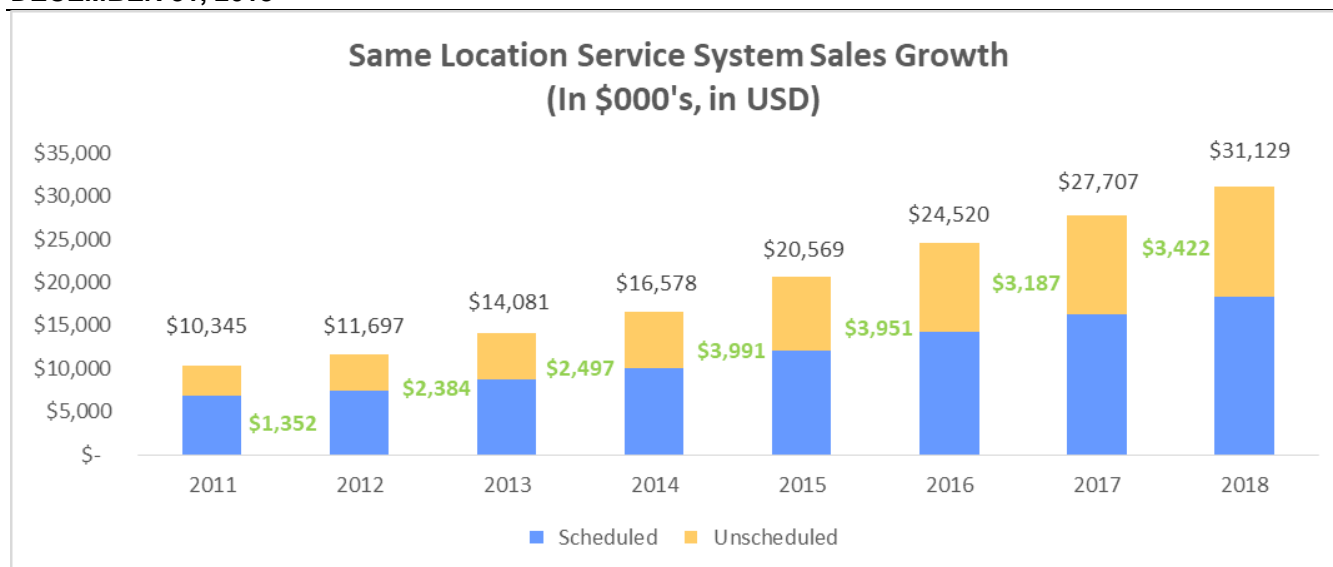
Corporate Location	Markets Served	Operating Since	Corporately Operating Since
Syracuse, NY	Syracuse	March 2004	May 2010 (Syracuse) October 2017 (Buffalo) April 2018 (Watertown)
Buffalo, NY	Buffalo and Rochester, NY	October 2017	October 2017
Albany, NY	Albany and the Hudson River Valley	April 2003	July 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
North Virginia, VA	Washington, DC suburbs including Arlington, Alexandria, Tysons, Reston and Dulles	July 2008	April 2017
North New Jersey, NJ	All counties north of Middlesex county	June 2005 (operated as Safe Shredding)	October 1, 2018

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.

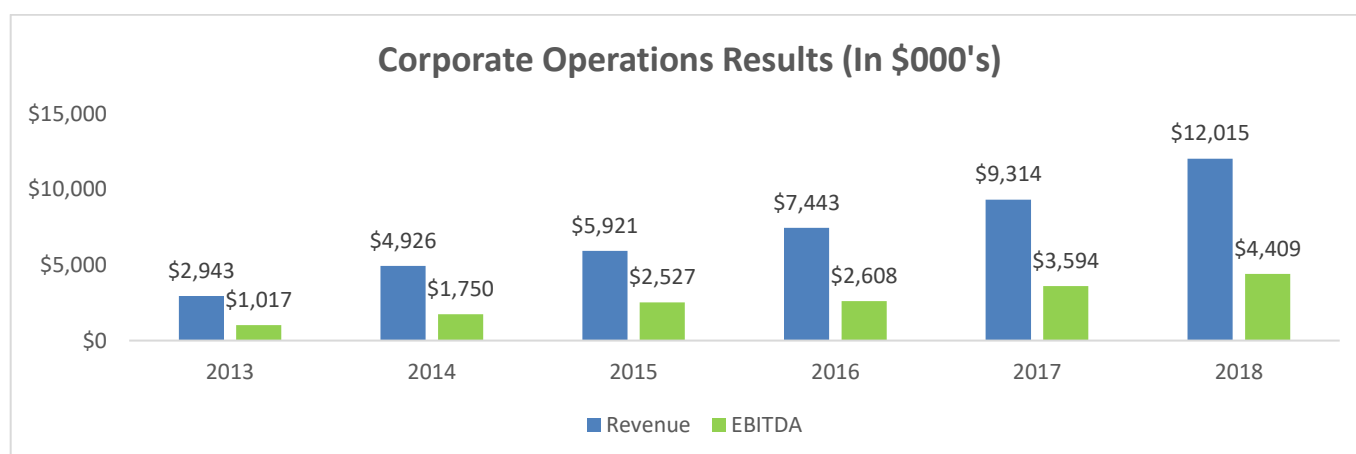
Redishred and its franchisees continue to invest in trucks, marketing and sales initiatives as well as human resources to maximize the outcome in our three core areas of performance. Over the last 6 years, Redishred has seen an average increase of 18% in system revenue (excluding recycling revenue), and an average increase of 22% in same location corporate store EBITDA. This has led to continued growth in consolidated cash flows from operations.



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 2018 Targets⁽¹⁾

Growth of Same Location Service System Sales ⁽²⁾ :	
2018 Target	Growth of 10% to \$30.25M USD.
2018 Performance <i>Exceeded target</i>	Redishred's same location service system sales (scheduled and unscheduled sales) grew by 13% over 2017, achieving \$31.1M USD.
Consolidated EBITDA and Operating Income from existing operations ⁽³⁾ :	
2018 Targets	<p>Attain EBITDA of \$3.3M from existing locations, growing by 14% over 2017 EBITDA.</p> <p>Attain operating income of \$2.3M from existing operations, growing by 10% over 2017 normalized operating income.</p>
2018 Performance <i>Did not achieve target</i>	<p>During 2018, Redishred earned \$3.0M in EBITDA from existing operations, an increase of 2% over 2017. Redishred earned \$1.9M in consolidated operating income from existing operations in 2018, a decrease of 3% over 2017. The Company did not achieve its target as a result of:</p> <ul style="list-style-type: none"> (1) the additional investment in four salespeople and increased management in two of our largest locations; (2) Board stock option grants were expensed at full value as the options vested immediately. The Company has increased both Board and management compensation as the Company has enhanced its performance and compensation for both was less than peer public companies; and (3) no new franchises were awarded.
Franchise Development:	
2018 Target	Open two to four new markets in the United States by way of franchising.
2018 Performance <i>Did not achieve target</i>	The Company did not award any new franchise locations during 2018. Redishred continues to pursue franchise opportunities in open markets and has increased its exposure with broker agencies and at International Franchise Association events.
Expand by way of Accretive Acquisitions:	
2018 Target	Conduct between \$3M and \$4M of acquisitions.
2018 Performance <i>Exceeded Target</i>	During 2018, the Company conducted \$7.8M of acquisitions. Redishred continues to identify and market to acquisition targets in the United States.

- (1) The performance targets do not include the IFRS 15 adjustments related to the adoption of the new accounting standard (Refer to page 6 and 32 for further discussion).
- (2) Service related sales excludes recycling sales.
- (3) Existing operations includes the same store corporate operations and the existing infrastructure. Existing operations for 2018 do not include the three acquisitions conducted during the year.

2019 and Longer-term Targets

Growth of Same Location Service System Sales⁽¹⁾:

2019 Target	Growth of 10% to \$43.7M USD.
Longer-term target	Growth between 8% and 10% per annum.

Consolidated EBITDA and Operating Income from existing operations⁽²⁾:

2019 Target	<p>Attain EBITDA of \$3.5M from existing locations, growing by 14% over 2018 EBITDA from existing locations.</p> <p>Attain operating income of \$2.1M from existing locations, growing by 11% over 2018 operating income from existing locations.</p> <p>This does not include the North New Jersey results as the acquisition was completed on October 1, 2018 or the Kansas results as the acquisition was completed on January 31, 2019.</p>
Longer-term target	Attain EBITDA and Operating Income growth of 5% to 10% from existing locations.

EBITDA and Operating Income from acquired operations:

2019 Target	Attain EBITDA margin of at least 35% and operating income margin of 27% prior to transition and acquisition costs.
Longer-term target	Maintain EBITDA and operating income margins of 35% and 27% respectively.

Franchise Development:

2019 Target	Open one new market in the United States by way of franchising.
Longer-term target	Continue to add one new market per annum.

Expand by way of Accretive Acquisitions:

2019 Target	Conduct between \$7M and \$10M of acquisitions.
Longer-term target	Increase the Corporately operated portfolio from 8 to 12 locations by 2020. Expand the Proshred footprint by at least one location per year.

(1) Service related sales excludes recycling sales.

(2) Existing operations includes the same store corporate operations and the existing infrastructure. Existing operations for 2018 and 2019.

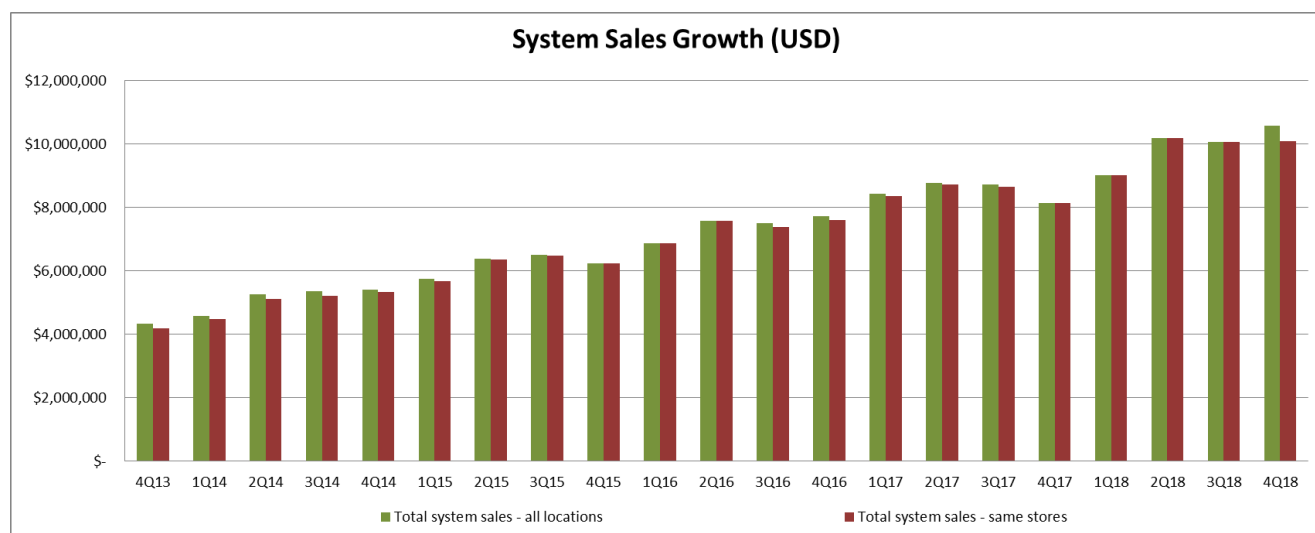
System Sales

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:

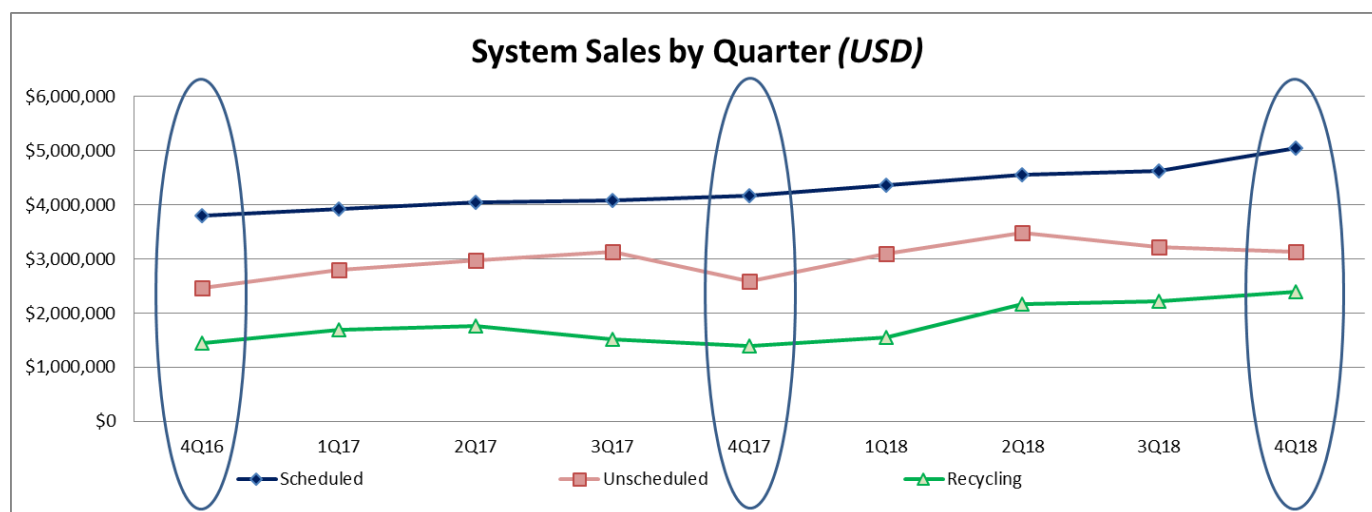
For the years ended December 31,	2018	2017	% Change
Total North American operating locations at period end	30	29	3%
Total system sales (USD)	\$ 39,841,328	\$ 34,070,237	17%
Same location total system sales (USD)	\$ 39,343,330	\$ 33,869,349	16%
Total system sales (CAD)	\$ 51,672,752	\$ 44,686,989	16%

System Sales Trend:

The following chart illustrates system sales growth in USD by quarter since the fourth quarter of 2013.



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



For the year ended December 31, 2018, service related system sales (scheduled and unscheduled sales) grew by US\$3.8 million, a 14% increase over 2017.

Scheduled sales:

Scheduled sales are defined as the revenue generated from customers with regular service that may occur on a weekly, bi-weekly, or monthly basis. Proshred sales and marketing strategies have been and continue to be focused on this particular sales category, as this provides our franchisees and corporate locations with stable and recurring cash flows. This focus resulted in continued growth in this category of 15% in 2018 over 2017.

Scheduled recurring system sales accounted for 59% of total service system sales in 2018 (59% - 2017).

For the years ended December 31,	2018	2017	% Change
	\$	\$	
Scheduled service sales (USD)	18,581,247	16,216,690	15%
Same store scheduled service sales (USD)	18,345,626	16,216,690	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, 2018, unscheduled sales reached a record high of just under \$13 million, growing 13% over 2017.

For the years ended December 31,	2018	2017	% Change
	\$	\$	
Unscheduled service sales (USD)	12,935,746	11,490,760	13%
Same store unscheduled service sales (USD)	12,783,821	11,490,760	11%

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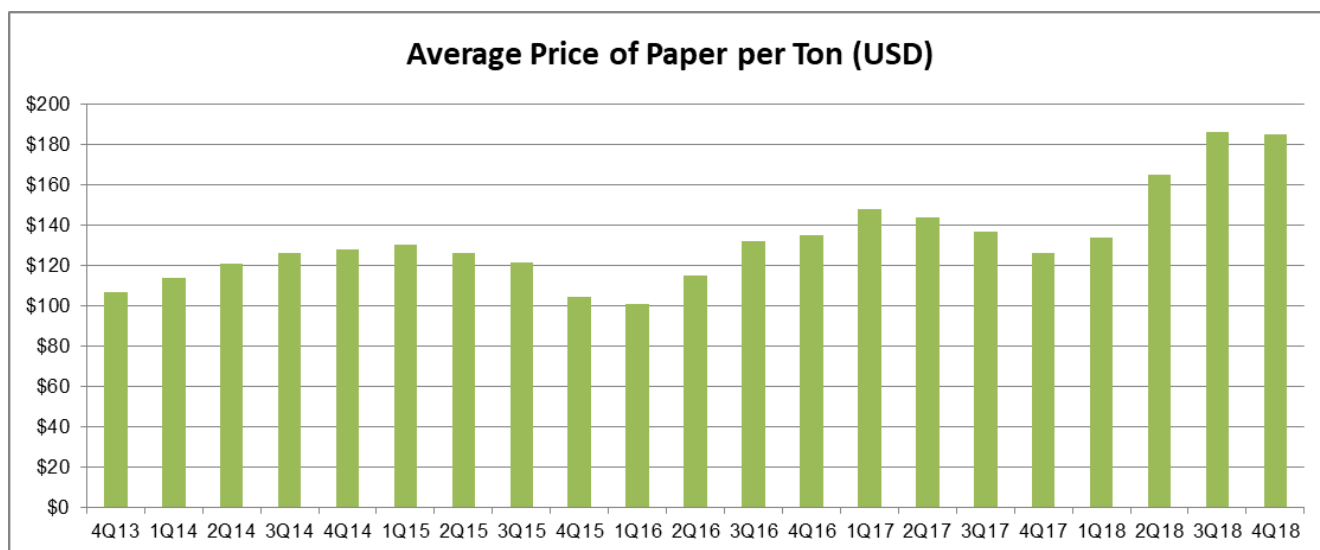
Recycling sales:

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,	2018	2017	% Change
	\$	\$	
Recycling sales (USD)	8,324,335	6,362,787	31%
Same store recycling sales (USD)	8,213,380	6,362,787	29%

Historical Pricing Trends:

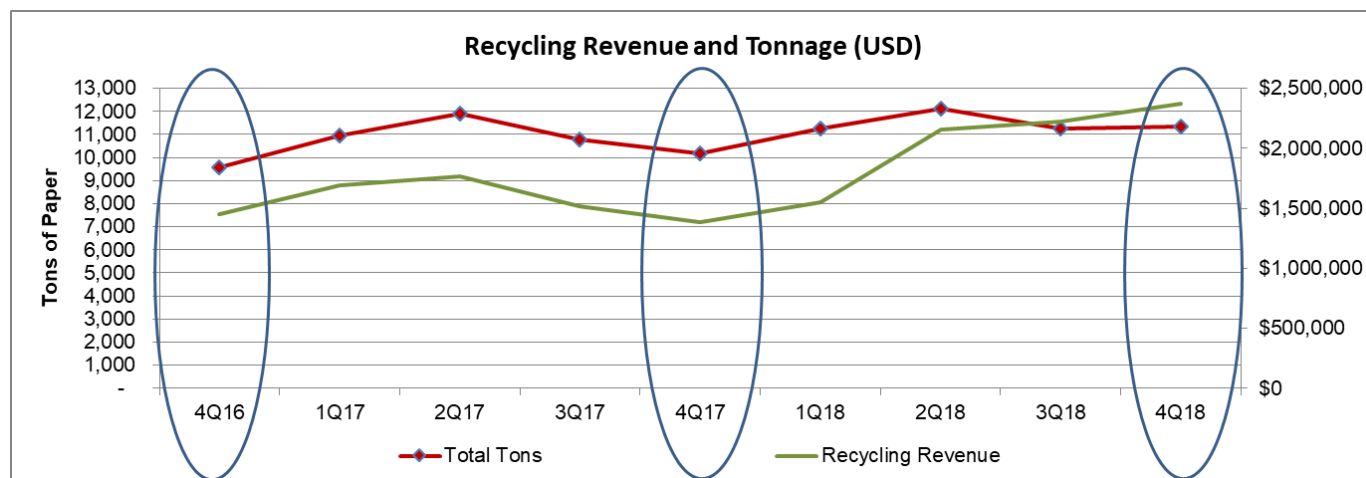
In 2018, the average paper prices in the Proshred system recovered from the decline in 2017 and reached a 7-year high. The average paper prices increased significantly in Q2 and Q3 2018 and leveled off in Q4. The average paper price in the Proshred system was \$168 per ton in 2018, a 21% increase over 2017.



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Historical Volume of Paper:

During 2018, the system shred and recycled 5% more paper than in 2017. The Proshred system shred and recycled 46,000 tons of paper during the year (44,000 – during 2017), which equates to 690,000 trees being saved (650,000 – during 2017).⁽¹⁾

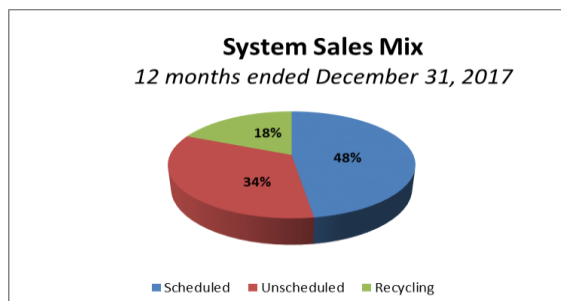
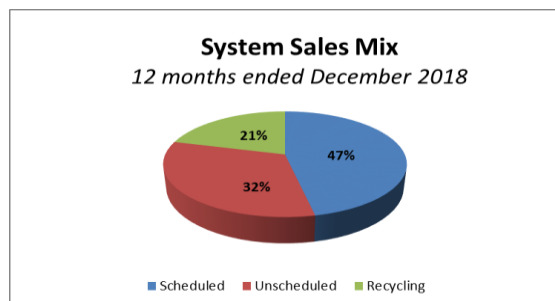


(1) The estimated amount of paper that can be produced from a tree has been conservatively estimated by management based on information taken from Conservatree.org.



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

Mix of business:



Franchising & Licensing

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. The initial fee is recognized as revenue over the term of the related franchise or license agreement on a straight-line basis in accordance with the new accounting standard adopted during the year. The Company also manages an advertising fund established to collect and administer funds contributed for use in regional and national sales and marketing programs, initiatives designed to increase sales and enhance general public recognition, acceptance and use of the Proshred System. The new accounting standard adopted during the year requires the consolidation of the advertising fund contributions and related expenses on a gross basis. Previously, the revenue, expenses and cash flows of the fund were reported on a net basis and not included in the Company's statements of income. (Refer to section "Changes in Accounting Standards".)

Royalty and service fees earned in 2018 grew 7% over 2017 due to increased system sales, including scheduled, unscheduled and recycling system sales.

The Company's franchise fees were previously recognized as revenue when the franchise or license agreement was executed and training was completed. Under the new accounting standard, the original fees recorded as revenue are recognized over the related agreement term. Franchise Fee revenue declined in 2018 versus 2017 as the original Middle East licence was terminated and reassigned to a new licensee, resulting in recognition of the remaining initial licence fee in 2017.

For the years ended December 31,	2018	2017	% Change
	\$	\$	
In CAD:			
Royalty, license and service fees	2,166,239	2,015,023	7%
Franchise fees (restated)	225,075	361,228	(38)%
Advertising contributions (restated)	253,697	255,145	(1)%
	2,645,011	2,631,396	1%
In USD:			
Royalty, license and service fees	1,671,868	1,555,018	8%
Franchise fees (restated)	173,709	277,868	(37)%
Advertising contributions (restated)	195,800	196,266	(1)%
	2,041,377	2,029,152	1%

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

Advertising Fund

The Company manages an Advertising Fund ("Fund") established to collect and administer funds contributed for use in regional and national advertising programs as well as to develop common platforms and tools. Contributions to the Fund are required to be made from both franchised and corporate locations and are based on annual levels of revenue from each location.

The Company has a Fund cash balance of \$215,709 as at December 31, 2018 and expects to incur a loss in 2019 and onward as the Fund will continue to invest in marketing channels, tools and web redesigns, thereby incurring expenses in excess of the contributions collected.

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For the years ended December 31,	2018	2017 (restated)	% Change
	\$	\$	
In CAD:			
Advertising fund contributions	253,697	255,145	(1)%
Advertising fund expenses	(342,409)	(370,514)	8%
Advertising fund loss	(88,712)	(115,369)	23%
Cash attributable to the advertising fund	215,709	193,776	11%

In USD:			
Advertising fund contributions	195,799	196,265	(1)%
Advertising fund expenses	(264,266)	(285,011)	7%
Advertising fund loss	(68,467)	(88,746)	23%
Cash attributable to the advertising fund	166,481	149,058	12%

Corporate Locations

As of December 31, 2018, the Company operates eight shredding locations in Syracuse, Albany, Milwaukee, New York City, Charlotte, Miami, Northern Virginia and North New Jersey. These locations represent the Company's corporately owned locations.

In 2018, the Company acquired the Shred Con business located in Up-State New York on April 2nd, the On Guard business located in New York City on June 8th and the Safe Shredding business located in North New Jersey on October 1st.

The results of these three acquisitions are included under non-same corporate locations (see chart on page 18). The North Virginia results for the 3 months ended March 31, 2018 are also included under non-same corporate locations as the Company acquired the business on March 31, 2017 (see chart on page 18).

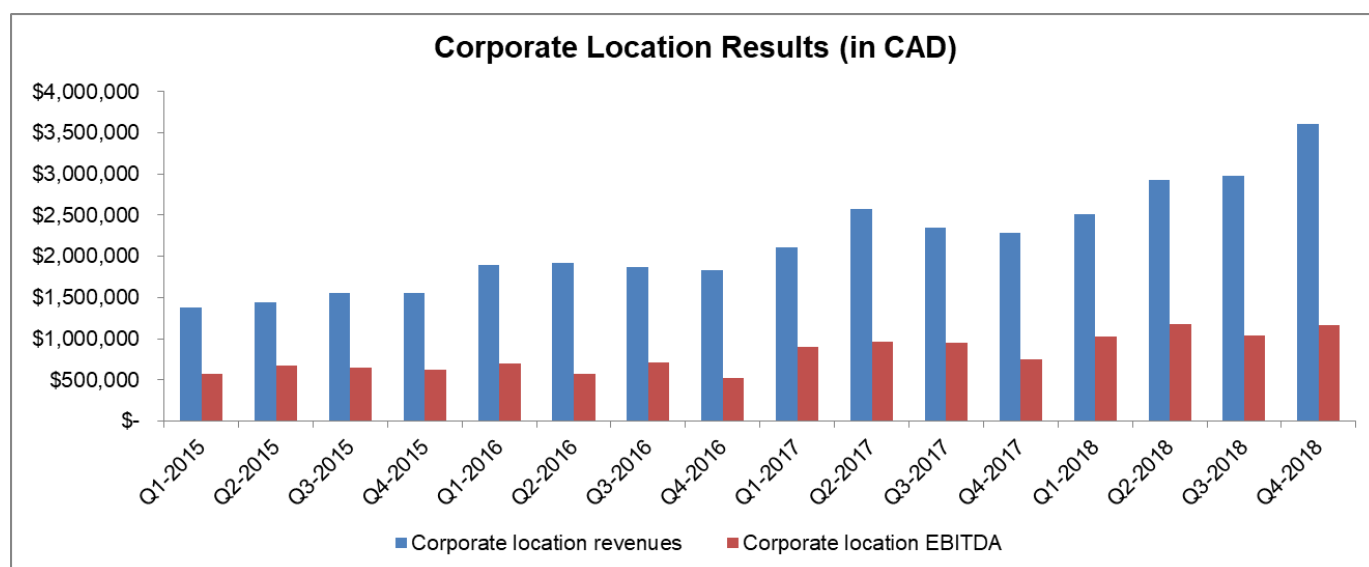
During year ended December 31, 2018, the total corporate location revenues grew by 29% over the prior comparative period. The Company also increased EBITDA and operating income by 23% over the year ended December 31, 2017. Included in the total and non-same operating costs are one-time transitional and acquisition related costs of \$99,800 related to the On Guard, Shred Con and North New Jersey acquisitions (which equates to 1% of Total Corporate location revenue).

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In CAD, In 000's	Total Corporate Locations			Same Corporate Locations			Non-same Corporate Locations	
	2018	2017	% Change	2018	2017	% Change	2018	2017
For the years ended December 31,	\$	\$		\$	\$		\$	\$
Revenue:								
Shredding service	9,694	7,826	24%	8,505	7,826	9%	1,189	-
Recycling	2,321	1,489	56%	1,977	1,489	33%	344	-
Total revenue	12,015	9,315	29%	10,482	9,315	13%	1,533	-
Operating costs	7,606	5,721	33%	6,627	5,721	16%	979	-
EBITDA	4,409	3,594	23%	3,855	3,594	7%	554	-
% of revenue	37%	39%	(2)%	37%	39%	(2)%	36%	-
Depreciation – tangible assets	1,142	944	21%	1,000	944	6%	142	-
Corporate operating income	3,267	2,650	23%	2,855	2,650	8%	412	-
% of revenue	27%	28%	(1)%	27%	28%	(1)%	27%	-

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	
	2018	2017	% Change	2018	2017	% Change	2018	2017
For the years ended December 31,	\$	\$		\$	\$		\$	\$
Revenue:								
Shredding service	7,482	6,020	24%	6,559	6,020	9%	923	-
Recycling	1,791	1,145	56%	1,525	1,145	33%	266	-
Total revenue	9,273	7,165	29%	8,084	7,165	13%	1,189	-
Operating costs	5,870	4,401	33%	5,110	4,401	16%	760	-
EBITDA	3,403	2,764	23%	2,974	2,764	8%	429	-
% of revenue	37%	39%	(2)%	37%	39%	(2)%	36%	-
Depreciation – tangible assets	882	726	21%	772	726	6%	110	-
Corporate operating income	2,521	2,038	24%	2,202	2,038	8%	319	-
% of revenue	27%	28%	(1)%	27%	28%	(1)%	27%	-



Note: The Company acquired the assets of Recordshred Inc. on December 31, 2015, the North Virginia franchise on March 31, 2017, the assets of Shred Con on April 2, 2018, the assets of On Guard on June 8, 2018 and the assets of Safe Shredding on October 1, 2018. Corporate operating income does not include an allocation of corporate overhead.

Corporate Overhead

Corporate overhead expenses for the year ended December 31, 2018 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 and acquisition. Also included in operating expenses are ongoing stock exchange listing and regulatory costs, professional services, occupancy costs and management salaries and benefits. With the change in accounting standard in 2018, the Company now recognizes the advertising fund expenses in the Consolidated Statement of Income. See the section on "Changes in Accounting Standard."

During 2018, salaries and benefits expense increased as a result of:

- (1) Increased salaries for senior management to align with similar positions in similarly sized service oriented public companies;
- (2) Directors compensation which commenced in the 3rd quarter of 2017 and
- (3) The addition of support staff required to sustain future growth.

Acquisition costs incurred during the year include:

- (1) Legal fees related to the Shred Con, On Guard, North New Jersey and Kansas acquisitions; and
- (2) Valuation fees related to the acquisitions.

General, administrative and marketing costs increased by 11% in 2018 over 2017 as a result of the following:

- (1) Increased rent with the expansion of the head office; and
- (2) Increased tax and accounting fees.

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

For the years ended December 31,

	2018	2017 (restated)	% Change
	\$	\$	
In CAD:			
Salaries and benefits	1,480,571	1,209,465	(22)%
Stock based compensation	248,138	293,989	16%
Acquisition costs	132,448	9,434	(1304)%
Advertising fund expenses	342,409	370,515	8%
General, administrative and marketing	1,334,923	1,196,741	(11)%
Total operating expenses	3,538,489	3,080,144	(15)%

Other Income and Expenses

Depreciation and Amortization – Franchising

Depreciation relates to the purchase of computer equipment, website development and furniture. Amortization relates to the purchase of Professional Shredding Corporation ("PSC") and the Proshred franchise business in 2008. As of January 31, 2018, these intangible assets were fully depreciated.

Depreciation and amortization is as follows:

For the years ended December 31,

	2018	2017	% Change
	\$	\$	
In CAD			
Depreciation – tangible assets	33,483	22,569	(48)%
Amortization – intangible assets	79,475	578,884	86%

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,

	2018	2017	% Change
	\$	\$	
In CAD:			
Amortization – intangible assets	447,433	394,928	(13)%
In USD:			
Amortization – intangible assets	346,321	303,791	(14)%

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.

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Exchange rates utilized

	2018	2017	% Change
	\$		
December 31 close rate	1.3638	1.2570	9%
Average rate	1.2957	1.3000	0%

Foreign exchange gain (loss) was as follows:

For the years ended December 31,	2018	2017	% Change
	\$	\$	
Foreign exchange gain (loss)	736,630	(293,047)	352%

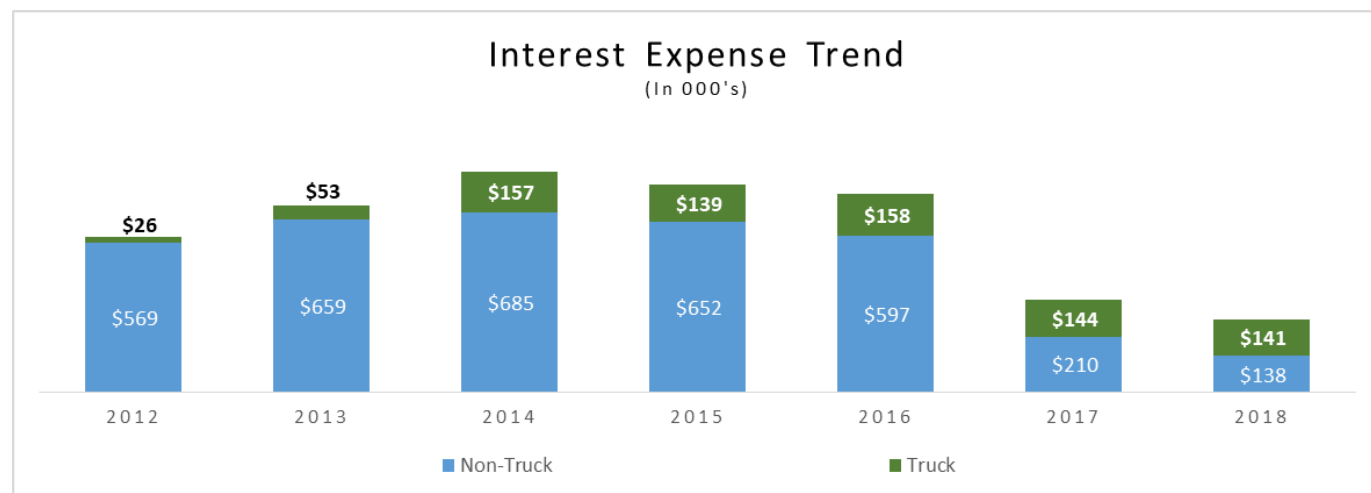
Interest income and expense

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 for the year ended December 31, 2018 relates to the following:

- the Company's Bank of Montreal ("BMO") term loan, which currently bears interest at 6.20% per annum, and
- truck loan and lease agreements, which bear interest at 5.39% to 7.50% per annum.

Interest expense decreased during the 2018 year in comparison to the 2017 year as a result of the following transactions made in 2017: principal repayments made on the related party line of credit, the conversion of \$1 million of related party debt into equity and establishing secured senior credit facilities with BMO at lower interest rates. In addition, interest rates related to truck financing have reduced year over year.



Interest income and interest expense is as follows:

For the years ended December 31,	2018	2017	% Change
	\$	\$	
Interest income	68,537	7,376	829%
Interest expense	(278,733)	(354,230)	21%

Income Tax

During the year ended December 31, 2018, the Company recorded net income tax recovery of \$319,420, which consists of a deferred income tax recovery of \$598,786 and a current income tax expense of \$277,375. The Company recognized a deferred tax asset, 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. The Company has incurred Canadian non-capital losses of \$3,737,194 as of December 31, 2018 that can be carried forward to reduce taxes payable in Canada. The losses expire at various times through December 31, 2035. The Company has incurred US non-capital losses of \$3,285,837 as of December 31, 2018 that can be carried forward to reduce taxes payable in the US. The losses expire at various times through December 31, 2036.

Reconciliation of EBITDA to Net Income

For the years ended December 31,	2018	2017 (restated)	% Change
	\$	\$	
EBITDA	3,515,499	3,144,869	12%
Less: depreciation – tangible assets	(1,175,673)	(969,287)	(21)%
Operating income	2,339,826	2,175,582	8%
Less: interest expense	(278,733)	(354,230)	21%
Add: interest income	68,537	7,376	829%
Operating income less net interest expense	2,129,630	1,828,728	16%
Less: amortization - intangible assets	(526,907)	(973,812)	46%
Income before the following	1,602,723	854,916	87%
Foreign exchange gain (loss)	736,630	(293,047)	352%
Gain on sale of assets	7,814	3,450	126%
Transaction recovery	45,891	-	100%
Income tax recovery	319,420	490,889	(35)%
Net income	2,712,478	1,056,208	157%

Selected Annual Information

	2018	2017 (restated)	2016 (restated)
	\$	\$	\$
Total Revenue	14,660,333	11,946,372	10,084,243
Net income	2,712,478	1,056,208	393,224
Operating income less net interest expense per share – diluted	0.037	0.039	0.035
Net income per share – basic and diluted	0.05	0.02	0.01
Total assets	27,942,961	11,505,832	10,001,400
Total non-current financial liabilities	4,505,066	3,181,702	3,556,072
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 2nd and 3rd quarters of every year typically being busier than the 1st and 4th quarters of every year.

(in CAD except where noted)	2018				2017 ⁽¹⁾			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$
System sales (USD)	10,576,398	10,067,397	10,192,111	9,005,422	8,145,441	8,731,719	8,772,960	8,420,117
Consolidated Performance								
Revenue	4,638,315	3,520,097	3,486,054	3,015,867	3,375,742	2,834,413	3,101,767	2,634,451
EBITDA	992,743	817,112	926,359	779,287	774,202	864,596	698,592	807,480
Operating Income	633,907	520,370	653,771	531,776	512,284	609,446	434,200	619,652
Corporate Location Performance								
Revenue	3,607,617	2,977,170	2,923,705	2,506,453	2,280,150	2,349,342	2,579,361	2,106,123
EBITDA	1,169,290	1,038,069	1,178,439	1,022,647	768,539	952,118	967,171	905,789
Operating Income	820,880	752,743	911,916	780,715	522,254	701,157	705,547	723,055
Income (loss) before taxes from continuing operations	1,082,657	250,891	602,488	459,371	281,892	(46,404)	(60,640)	390,472
Income (loss) attributable to owners of the parent	1,238,746	302,299	690,065	481,130	845,566	(68,117)	(108,111)	386,870
Basic and diluted net income (loss) per share	.02	.01	.01	.01	.02	(.00)	(.00)	.00

- (1) Certain amounts have been restated with the adoption of the new accounting standard on a retrospective basis. The Consolidated financial statements for 2018 are prepared under the new standard. See the section "Changes in Accounting Standards" for further analysis. Certain amounts have been reclassified to conform to the current period's presentation.

Q4 Financial Highlights

(in 000's except as noted)

For the 3 months ended December 31,	2018	2017 (restated)	% change
	\$	\$	
System Sales Performance – in USD			
Total system sales	10,576	8,145	30%
Same store system sales	10,078	8,145	24%
Percentage scheduled	48%	51%	
Operating Performance – in CAD			
<u>Consolidated results:</u>			
Revenue	4,638	3,376	37%
EBITDA	993	774	28%
As a percentage of revenue	21%	23%	
Operating Income	634	512	24%
As a percentage of revenue	14%	15%	
<u>Corporate location results:</u>			
Revenue	3,608	2,280	58%
EBITDA	1,170	768	52%
As a percentage of revenue	32%	34%	
Operating income	821	522	57%
As a percentage of revenue	23%	23%	

Q4 System Sales Results

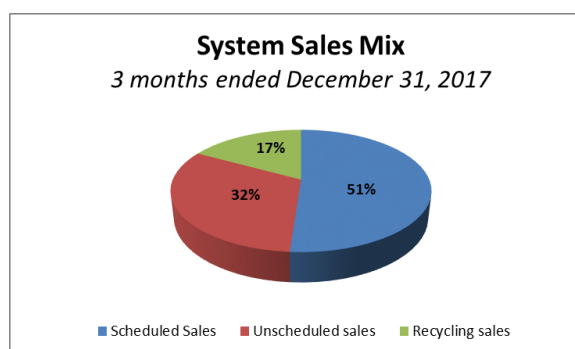
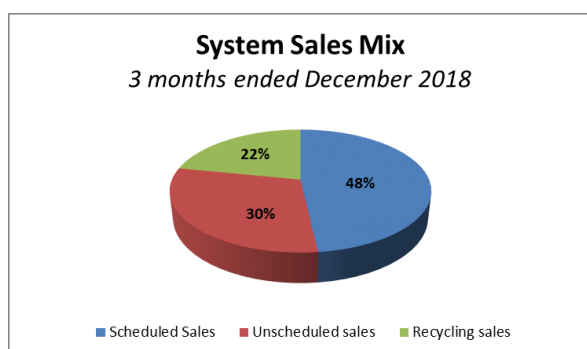
The fourth quarter of 2018 includes the corporate store sales of North New Jersey which was acquired on October 1, 2018. Scheduled sales reached a record high of US\$5 million during Q4-2018 and service system sales were US\$8.2 million, growing by 21% over Q4-2017. Same store system sales increased 24% in Q4-2018 over Q4-2017.

During the three months ended December 31, 2018, recycling sales increased by 72% over the same period in 2017. This was a result of the increase in the price of paper in the Proshred system by 47% in Q4-2018 over Q4-2017. The average price of paper in the Proshred system in the fourth quarter of 2018 was US\$185 per ton, versus US\$126 per ton in the fourth quarter of 2017. The Proshred system shred and recycled 11,000 tons of paper during the fourth quarter of 2018 (fourth quarter of 2017 – 10,100), which equates to 170,000 trees being saved (fourth quarter of 2017 – 153,000).

For the 3 months ended December 31,

	2018	2017	% Change
Total locations	30	29	3%
Total system sales (USD)	\$10,576,398	\$8,145,441	30%
Total system sales (CAD)	\$13,975,652	\$10,352,856	35%
Total same store system sales (USD)	\$10,078,400	\$8,145,441	24%
Total scheduled service sales (USD)	\$5,048,206	\$4,165,195	21%
Total unscheduled service sales (USD)	\$3,136,370	\$2,592,188	21%
Total recycling sales (USD)	\$2,391,822	\$1,388,058	72%

System Sales Mix:



Q4 Franchising Results

During the fourth quarter of 2018, the Company's royalties increased 14% over the fourth quarter of 2017 as a result of the growth in system sales.

The new accounting standard adopted during the year requires the consolidation of the advertising fund contributions and related expenses on a gross basis. Previously, the revenue, expenses and cash flows of the fund were reported on a net basis and not included in the Company's statements of income. (Refer to section "Changes in Accounting Standards".)

The Company's franchise fees were previously recognized as revenue when the franchise or license agreement was executed and training was completed. Under the new accounting standard, the original fees recorded as revenue are recognized over the related agreement term. Franchise Fee revenue declined in 2018 versus 2017 as the original Middle East licence was terminated and reassigned to a new licensee, resulting in recognition of the remaining initial licence fee in 2017.

For the 3 months ended December 31,	2018	2017	% Change
	\$	\$	
In CAD:			
Royalty, license and service fees	551,926	485,719	14%
Franchise fees (restated)	225,075	361,228	(38)%
Advertising fund contributions (restated)	253,697	255,145	(1)%
Total franchising revenue	1,030,698	1,102,092	7%
In USD:			
Royalty, license and service fees	425,967	373,630	14%
Franchise fees (restated)	173,709	277,868	(37)%
Advertising fund contributions (restated)	195,800	196,266	0%
Total franchising revenue	795,476	847,764	6%

Q4 Corporate Overhead

General, administrative and marketing expenses increased by 23% in the fourth quarter of 2018 over the prior comparative period due to the following:

- (1) Increased rent with the expansion of the head office;
- (2) Legal fees related to the amalgamation of two Companies; and
- (3) Increased costs related to the legal and professional fees for the North New Jersey and Kansas acquisitions.

For the 3 months ended December 31,	2018	2017	% Change
	\$	\$	
In CAD:			
Salaries and benefits	357,893	358,851	0%
Stock based compensation	19,334	6,667	(190)%
Acquisition costs	50,818	-	(100)%
Advertising fund expenses	342,409	370,514	(8)%
General, administrative and marketing	436,791	353,896	(23)%
Total operating expenses	1,207,245	1,089,928	(11)%

Q4 Corporate location results

During the three months ended December 31, 2018, the corporate location revenues grew by 58% and EBITDA grew by 52% over the same comparative period. The Q4-2018 corporate location results include the first quarter of North New Jersey results post acquisition on October 1, 2018. Same store corporate locations grew sales by 22% and EBITDA grew by 18% over Q4-2017. The decline in EBITDA margins in Q4-2018 over Q4-2017 is due to the investment in four additional salespeople and increased management in our two largest locations.

The results of the acquisitions of Shred Con (purchased April 2, 2018), On Guard (purchased June 8, 2018) and North New Jersey (purchased October 1, 2018) are included under non-same corporate locations. Included in the total and non-same operating costs are consulting fees of \$29,369 related to the North New Jersey transition (1% of Total Corporate Revenue).

The corporate location results are as follows:

In CAD, In 000's For the 3 months ended December 31,	Total Corporate Locations			Same Corporate Locations			Non-same Corporate Locations	
	2018	2017	% Change	2018	2017	% Change	2018	2017
	\$	\$		\$	\$		\$	\$
Revenue:								
Shredding service	2,859	1,955	46%	2,231	1,955	14%	628	-
Recycling	749	325	130%	557	325	71%	192	-
Total revenue	3,608	2,280	58%	2,788	2,280	22%	820	-
Operating costs	2,438	1,512	61%	1,884	1,512	25%	554	-
EBITDA	1,170	768	52%	904	768	18%	266	-
% of revenue	32%	34%	(2)%	32%	34%	(2)%	32%	-
Depreciation – tangible assets	349	246	42%	258	246	5%	91	-
Corporate operating income	821	522	57%	646	522	24%	175	-
% of revenue	23%	23%	0%	23%	23%	0%	21%	-
In USD, In 000's For the 3 months ended December 31,	Total Corporate Locations			Same Corporate Locations			Non-same Corporate Locations	
	2018	2017	% Change	2018	2017	% Change	2018	2017
	\$	\$		\$	\$		\$	\$
Revenue:								
Shredding service	2,183	1,504	45%	1,699	1,504	13%	484	-
Recycling	572	250	129%	425	250	70%	147	-
Total revenue	2,755	1,754	57%	2,124	1,754	21%	631	-
Operating costs	1,864	1,163	60%	1,437	1,163	24%	427	-
EBITDA	891	591	51%	687	591	16%	204	-
% of revenue	32%	34%	(2)%	32%	34%	(2)%	32%	-
Depreciation – tangible assets	266	189	41%	196	189	4%	70	-
Corporate operating income	625	402	56%	491	402	22%	134	-
% of revenue	23%	23%	0%	23%	23%	0%	21%	-

Q4 Other Income and Expenses

	2018	2017	% Change
	\$	\$	
Interest Income	53,578	1,251	4183%
Interest expense	(75,606)	(69,741)	(8)%
Amortization – intangible assets	(168,892)	(239,859)	30%

In the fourth quarter of 2018, interest expense increased by 8% over the prior year comparative period as the Company financed the purchase of seven shredding vehicles during the year. Interest income increased from Q4-2017 to Q4-2018 as a result of investments in redeemable Guaranteed Investment Certificates ("GIC's"). Amortization of intangible assets decreased as all the intangible assets related to the purchase of the Proshred franchise business were fully depreciated as of January 31, 2018.

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,

	2018	2017	% Change
		(restated)	
Working capital ⁽¹⁾	\$7,288,272	\$1,378,358	416%
Total assets	\$27,942,961	\$11,505,832	143%
Total liabilities	\$7,995,426	\$5,461,553	(48)%
Total current liabilities	\$3,490,360	\$2,279,717	56%
Debt to total assets ratio	0.29	0.42	31%
Normalized Fixed Charge Coverage ratio – rolling 12 months	1.94	2.30	16%
Normalized Total Funded Debt to EBITDA ratio – rolling 12 months	1.69	1.28	32%

- (1) Certain amounts have been restated with the adoption of the new accounting standard on a retrospective basis. The Consolidated financial statements for 2018 are prepared under the new standard. See the section "Changes in Accounting Standards" for further analysis.

The total assets and working capital of the Company have increased when compared to December 31, 2017 as a result of the private placement completed in the 3rd quarter of 2018 for gross proceeds of \$11 million. In addition, the Company conducted three acquisitions during the year for a total of \$7.8 million, further resulting in an increase in assets.

The total liabilities of the Company have increased over December 31, 2017 as the acquisitions conducted during the year included debt financing by way of notes payable and contingent consideration. As of December 31, 2018, the Company has the following debt available for use: \$2 million on its related party line of credit, \$1 million on its BMO term loan and \$1 million on its BMO operating line of credit. The Company also has \$1.1 million available for use on its line of credit with BMO Transportation Finance in the United States.

The Company's rolling twelve-month fixed charge coverage and its total funded debt to EBITDA ratio comply with its financial covenants. Management will continue to balance investment in human resources, trucks and technology with continued management of its debt balances.

Bank indebtedness

The Company has the following secured senior credit facilities:

- (1) An operating demand loan of \$1 million bearing interest at 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 prime rate plus 2.5%.

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As at December 31, 2018, Bank of Montreal has advanced \$2 million on the non-revolving term loan, of which the current balance is \$1,438,166, at December 31, 2018. The Company has not received an advance on the operating demand loan as at December 31, 2018 (no advance – December 31, 2017).

The Company has also established a \$1.7 million USD line of credit for the purchase of shredding vehicles with BMO Transportation Finance in the United States. The line of credit is open for one year, until November 2019 when an annual credit review is completed. The interest rate is based on prevailing market rates at the time the line is used. The Company has received an advance of US\$550,604 during the year ended December 31, 2018, which is included in the truck loans balance. The Company has US\$1,149,396 available for use on the line of credit as at December 31, 2018.

Related party line of credit

The Company has a related party line of credit facility for a maximum amount of \$2.0 million. The line of credit facility matures on July 16, 2022 and bears interest at a fixed rate of 10% per annum. The line of credit is secured by a second in priority general security agreement over the Company's assets. As at December 31, 2018, the facility has not been drawn upon.

The Company has the following operating lease commitments:

	\$
Less than 1 year	475,468
Between 1 and 5 years	935,678
	<hr/>
Total	1,411,146
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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.

Private Placement

On July 26, 2018, the Company completed a private placement of 18,333,334 common shares of the Company at a price of \$0.60 per common share for gross proceeds of \$11 million. The net proceeds of the private placement will be used to fund future growth initiatives including both acquisitions and organic growth, and for general corporate purposes. The \$11 million gross proceeds have been recorded net of transaction costs of \$797,023, which include broker commissions, legal and regulatory fees.

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

	Common stock		Warrants		Total	
	Number	\$	Number	\$	Number	\$
Balance December 31, 2018	66,557,355	24,350,575	1,652,150	610,515	68,209,505	24,961,090
Balance December 31, 2017	47,502,587	13,451,864	1,652,150	610,515	49,154,737	14,062,379

Capital Assets

As at,	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>% Change</u>
	\$	\$	
Net book value	5,835,968	3,772,234	55%

The Company's capital assets (not including intangible assets) increased as a result of the three acquisitions conducted during 2018. The Company also purchased five new shredding vehicles during the year ended December 31, 2018. The acquisitions and additions were offset by continued depreciation of its capital assets.

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. During the year ended December 31, 2017, the Company earned royalties, service fees and interest income of \$149,858 (2017 - \$128,875) from this franchise. Included in notes receivable from the franchisees is a three year note receivable balance of \$9,988, which has an interest rate of 5% per annum.

On December 31, 2018, the Company acquired customer assets located in the Miami, Florida territory from the Tampa Bay, Florida Proshred franchise for a total purchase price of \$29,418. The customer assets purchased were part of the total customer assets acquired by the Tampa Bay franchise from a third party.

Changes in Accounting Standards

The Company applied new standard *IFRS 15, Revenue from Contracts with Customers*, ("IFRS 15"), for the first time for its annual reporting period commencing January 1, 2018, using the full retrospective method. The new standard changes the timing of recognition of initial franchise, license and renewal fees. These fees were previously recognized as revenue upfront when the franchise or license agreement was fully executed. Under IFRS 15, the Company's performance obligations under the franchise and license agreements include a franchise license and prescribed training and other pre-opening services. These obligations are highly interrelated and the Company has identified one distinct performance obligation which it is satisfying over the term of the franchise agreement. As a result, these fees are recognized as revenue over the related term.

The transition to IFRS 15 also requires the consolidation of the advertising fund contributions and related expenses on a gross basis. As the Company controls the advertising services prior to delivery of those services to the franchisees, the revenue and expenses are reported on a gross basis. Previously, the revenue, expenses and cash flows of the Advertising fund were reported on a net basis and not included in the Company's statements of income. The adoption of IFRS 15 had no net impact on the Company's cash provided by operating activities, cash used in investing activities or cash provided by financing activities during the year.

The Company also applied new standard *IFRS 9, Financial Instruments*, ("IFRS 9"), for the first time for its annual reporting period commencing January 1, 2018. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value and eliminates the held to maturity, available for sale and loans and receivable categories previously allowed under IAS 39. Trade and other receivables that were previously classified as loans and receivables under IAS 39 are classified as financial assets at amortized costs under IFRS 9. The change in classification under IFRS 9 has not resulted in changes in the carrying amounts. The Company assessed that no adjustments were required to the carrying amounts of financial assets and financial liabilities upon adoption.

Application of IFRS 9 has no impact on the Company's financial position or results of operations and there is no financial impact that requires disclosure.

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, Shred-It America, Inc. (now owned by Stericycle Inc.), and small, independent mobile shredding businesses.

Interest Rate Risk

The Company is subject to interest rate risk, as it pays interest at prevailing and fluctuating market rates. The Company has a variable interest rate loan and line of credit which may increase or decrease at any time and as a result may impact the Company's operating results. The Company's truck financing arrangements have fixed interest rates.

Credit Risk

The Company is exposed to credit risk from the possibility that franchisees and/or customers may experience financial difficulty and be unable to fulfill their commitments and obligations to the Company. The Company mitigates the risk of credit loss by limiting its exposure to any one franchisee or customer. Credit assessments are conducted with respect to all new franchisees. No customer accounts for more than 10% of the Company's corporate store revenues. The Company's bad debt expense was 0.2% of revenues in 2018.

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 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 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 Canada and the United States. The Company could be materially affected if there are changes in current tax regulations.

Cyber Security Risk

A cyber incident is any adverse event that threatens the confidentiality, integrity or availability of the Company's information technology resources and personal information. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to information systems to disrupt operations, corrupt data or steal confidential information. The occurrence of a cyber incident may result in an interruption in operations, damage to the Company's reputation and/or relationships with its vendors and customers and disclosure of confidential customer or vendor information. The Company has implemented processes, procedures and controls to mitigate these risks, but these measures, as well as its increased awareness of a risk of a cyber incident, do not guarantee that its financial results will not be negatively impacted by such an incident.

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, 2018, there were 66,557,355 issued and outstanding common shares, 1,785,500 options to acquire common shares and 1,652,150 warrants outstanding. During the year ended December 31, 2018, 50,000 stock options were exercised. There were no warrants exercised during the year. During 2017, 1,575,000 options were exercised, and 150,000 warrants were exercised. There were 641,500 stock options granted during the year ended December 31, 2018 (for the year ended December 31, 2017 – 769,000). For the year ended December 31, 2018, the stock-based compensation expense amounted to \$248,138 (for the year ended December 31, 2017 – \$293,989).

Subsequent events

On January 31, 2019, the Company granted 124,050 stock options to non-management Directors of the Company. The stock options were granted at a price of \$0.62 with a life of five years, expiring on January 29, 2024.

On February 1, 2019, the Company completed the acquisition of the Proshred Kansas City business from its franchisee. At the same time, it also acquired the Secure e-Cycle business, which was operated independently by the same franchisee. The total purchase price for these acquisitions was approximately USD\$7.5 million in aggregate. The consideration paid included cash, contingent consideration and a note payable. The acquisitions include on-site paper shredding trucks, plant-based shredding and baling equipment, client relationships and other assets used in the shredding and electronics recycling businesses. The Company views these acquisitions as accretive to its cash flows and earnings per share. The acquisitions were financed by utilizing cash reserves and the existing line of credit as well as a vendor take back.

On February 28, 2019, the Company sold the customer assets located in Southern New Jersey originally purchased as part of the Safe Shredding business on October 1, 2018. The Southern New Jersey customer assets were sold to the Company's Southern New Jersey franchisee for US\$300,000.

On April 11, 2019, the Company granted 162,400 stock options to key management personnel. The stock options were granted at a price of \$0.83 with a life of five years, expiring on April 10, 2024.

Dated: April 15, 2019

