

## Table of Contents

Forward Looking Statements .....	2
Non-IFRS Financial Measures .....	3
Business Overview.....	4
Key Performance Indicators (“KPIs”) .....	4
Financial and Operational Highlights.....	5
Company Strategy.....	6
Performance Compared to 2018 Targets .....	10
System Sales .....	11
Franchising & Licensing.....	15
Corporate Locations .....	15
Corporate Overhead.....	16
Other Income and Expenses .....	17
Foreign exchange.....	17
Interest income and expense.....	18
Income Tax.....	19
Reconciliation of EBITDA to Net Income .....	19
Selected Quarterly Results .....	20
Financial Condition, Capital Resources and Liquidity.....	21
Capital Assets.....	22
Off-Balance Sheet Financing Arrangements .....	22
Transactions with Related Parties .....	22
Risks and Uncertainties .....	22
Use of estimates and judgements.....	22
Investor Relations Activities.....	22
Share Data .....	23
Subsequent events.....	23

## **Basis for Presentation**

The following management's discussion and analysis ("MD&A") for Redishred Capital Corp. (the "Company" or "Redishred") has been prepared by management and focuses on key statistics from the consolidated interim financial report and pertains to known risks and uncertainties. To ensure that the reader is obtaining the all pertinent information, this MD&A should be read in conjunction with material contained in the Company's unaudited consolidated interim financial statements for the three months ended March 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 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 May 30, 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; and
- (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 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 and corporate overhead.
- **Consolidated operating income** is defined as revenues less all operating expenses, depreciation related to the tangible assets. 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 EBITDA** is defined as earnings before interest, taxes, depreciation and amortization and corporate overhead generated by corporately operated locations.
- **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 Q1-2018, the Proshred system achieved \$9 million USD in System Sales (\$7 million USD through franchised/licensed locations and \$2 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 increases – this measure considers Redishred's ability to increase its operating income from operations and includes depreciation on tangible assets, the largest being truck assets.
4. Corporate location operating income growth – management's expectation is to grow operating income generated by the corporate locations as it drives the Company's cash flow.
5. Fixed Charge Coverage Ratio – a common measure of credit risk used by lenders, this measure considers Redishred's ability to pay both interest and principal on outstanding debt. Management is focused on increasing this ratio, as generally, the higher the fixed charge coverage ratio, the lower the credit risk.
6. Total Funded Debt to EBITDA Ratio – this measures Redishred's leverage and its ability to pay all outstanding debt and assesses the Company's financial health and liquidity position. Management's goal is to continue to reduce this ratio which is an indicator that the Company has sufficient funds to meet its financial obligations.

## Financial and Operational Highlights

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

(in 000's except as noted)

For the three months ended March 31,	2018	2017 <sup>(1)</sup>	% change
<b>System Sales Performance – in USD</b>			
Total locations in the United States	29	29	0%
System sales – total and same location	\$9,005	\$8,420	7%
<i>Percentage scheduled</i>	49%	47%	
<b>Consolidated Operating Performance – in CDN</b>			
Revenue	\$3,016	\$2,635	14%
EBITDA	\$779	\$807	(3)%
Operating Income	\$532	\$620	(14)%
<i>As a percentage of revenue</i>	18%	24%	
Operating Income per share fully diluted	\$0.011	\$0.014	(21)%
<b>Corporate Locations Performance – in CDN</b>			
Revenue	\$2,506	\$2,106	19%
EBITDA	\$1,022	\$854	20%
Operating income	\$780	\$669	17%
<i>As a percentage of revenue</i>	31%	32%	
As at March 31 and December 31,	2018	2017	% change
<b>Capital Management – in CDN</b>			
Working capital	\$1,802	\$1,411	28%
Debt to total assets ratio	0.39	0.42	7%
Fixed Charge Coverage ratio – rolling 12 months	2.16	2.30	(6)%
Total Funded Debt to EBITDA ratio – rolling 12 months	1.14	1.28	11%

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

## Summary of Q1 2018 Results and Operations

### ***Growth in 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 sales and marketing initiatives designed to capture scheduled revenue as well as one-time unscheduled revenue.

During Q1-2018 Redishred's system sales growth over Q1-2017 was as follows:

<b>Total System Sales increased by 7%</b>	
<u><i>By Service Type:</i></u>	<u><i>By Location Type:</i></u>
Scheduled (recurring) increased by 11%	Franchise location system sales increased by 5%
Unscheduled increased by 11%	Royalty revenue decreased by 4%
Recycling decreased by 8%	Corporate location system sales increased by 19% (Same Store 4%)

### ***Corporate Location EBITDA***

Corporate location EBITDA reached a record high in Q1-2018. Growth in Q1-2018 over Q1-2017 was as follows:

#### *Total locations:*

EBITDA in USD increased by 25%  
EBITDA in CAD increased by 20%

#### *Same locations:*

EBITDA in USD increased by 15%  
EBITDA in CAD increased by 10%

During the 1<sup>st</sup> quarter of 2018, the Canadian dollar appreciated 5% higher than during the 1<sup>st</sup> quarter of 2017 causing the EBITDA growth to be lower in Canadian dollar versus US dollar.

### ***Consolidated EBITDA and Operating Income***

During the 1<sup>st</sup> quarter of 2018, the Company's consolidated EBITDA and operating income declined by 3% and 14% respectively, over the 1<sup>st</sup> quarter of 2017. This decline was primarily due to the issuance of stock options to the Board of Directors as part of a formal director compensation program initiated during the third quarter of 2017. Previously, the Board of Directors were compensated on an ad hoc basis as there was no formal compensation program in place. The compensation program includes an annual retainer for each board member paid by way of stock options. The stock compensation expense related to the issuance of these stock options in the 1<sup>st</sup> quarter of 2018 was \$134,457. As the stock options vested in full on the day of grant, the full expense was incurred during the first quarter of 2018. EBITDA and operating income growth excluding this expense was 14% and 8% respectively during Q1-2018 over Q1-2017.

During the 1<sup>st</sup> quarter of 2018 the Canadian dollar appreciation versus the US dollar resulted in a decline in consolidated EBITDA and operating income over the 1<sup>st</sup> quarter of 2017. Given that majority of the Company's operations are denominated in US dollar, the appreciation of the Canadian dollar results in a decline in Company income. The Company has presented its results in both US dollar and Canadian dollar throughout this MD&A, where the Company's operations are originally denominated in US dollar.

## **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.

**REDISHRED CAPITAL CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2018**

**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. Subsequent to March 31, 2018, the Company acquired the assets of the Shred Con business in upstate New York.

The Company's North American locations are as follows:

<b>Franchised Location</b>	<b>Markets Serviced</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

**REDISHRED CAPITAL CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2018**

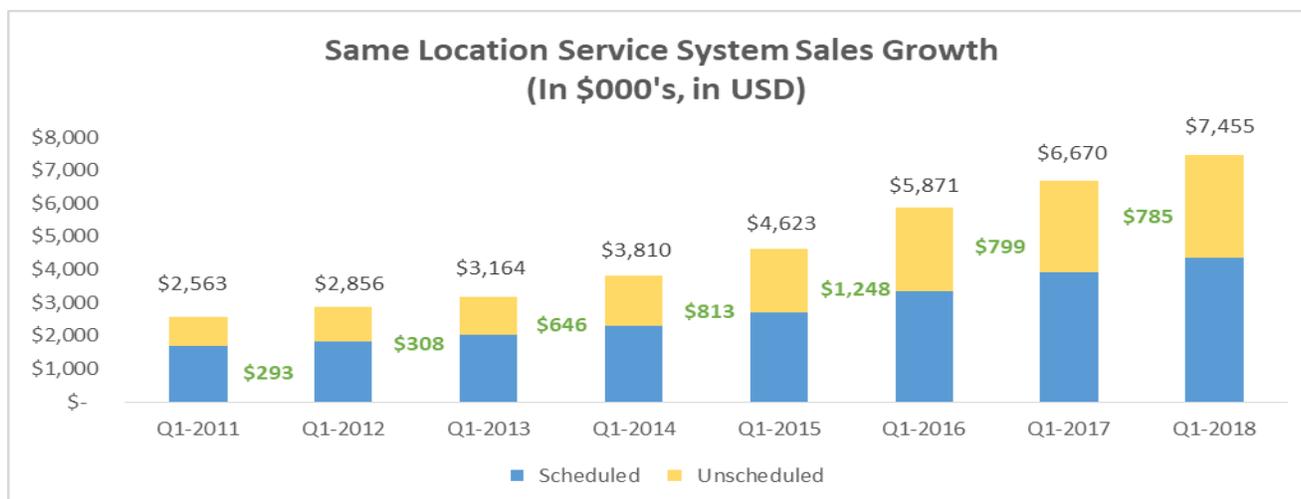
Corporate Location	Markets Served	Operating Since <sup>(1)</sup>	Corporately Operating Since
Syracuse, NY	Syracuse	March 2004	May 2010
Buffalo, NY	Buffalo and Rochester	October 2017	October 2017
Albany, NY	Albany and the Hudson River Valley	April 2003	July 1 2010
Watertown, NY	Watertown	April 2018	April 2018
New York City, NY	New York City, Westchester, Rockland, Dutchess and Putnam Counties, Bergen County, NJ, Staten Island and Long Island	January 2008	January 2012
Milwaukee, WI	Milwaukee, Madison and Racine	August 2003	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**

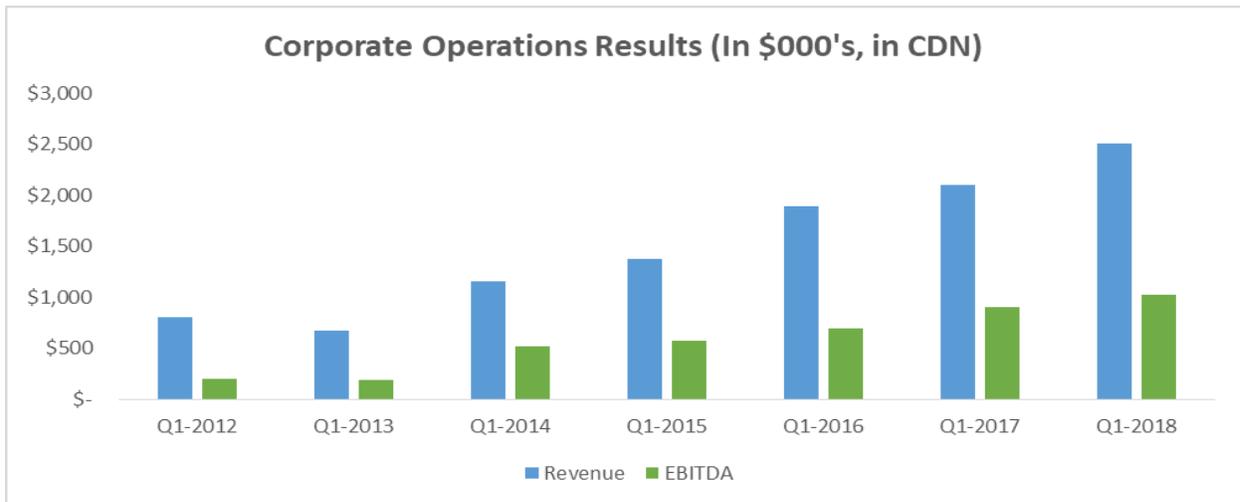
Management will focus on three key areas to drive same location revenue and earnings:

- (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 7 years, Redishred has seen an average increase of 18% in same location system revenue (excluding recycling revenue), and an average increase of 25% in same location corporate store EBITDA. This has led to continued growth in consolidated cash flows from operations.



Note (1): The above green figures refer to the year over year growth in same location service system sales.



### **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 2018 Targets**

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

<b>2018 Target</b>	Growth of 10% to \$30.25M USD.
<b>Q1-2018 Performance</b>	Redishred's service system sales (scheduled and unscheduled sales) grew by 11% over Q1-2017, achieving \$7.5M USD. Same location service system sales were equal to total location service system sales.

**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>Q1-2018 Performance</b>	During the 1 <sup>st</sup> quarter of 2018, Redishred earned \$779,000 in EBITDA from existing operations, a decline of 3% over the 1 <sup>st</sup> quarter of 2017. The decline is primarily due to a stock compensation expense of \$134,457 in relation to a new compensation program for the Board of Directors. The Q1-2018 consolidated EBITDA is in line with the Company's annual budget.

**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>Q1-2018 Performance</b>	During the 1 <sup>st</sup> quarter of 2018, Redishred earned \$532,000 in consolidated operating income from existing operations, declining by 14% over the 1 <sup>st</sup> quarter of 2017. As noted above, there was a \$134,457 stock compensation expense incurred in the 1 <sup>st</sup> quarter of 2018.

**Franchise Development:**

<b>2018 Target</b>	Open two to four new markets in the United States by way of franchising.
<b>Q1-2018 Performance</b>	The Company did not award any new franchise locations during the 1 <sup>st</sup> quarter of 2018. Redishred is actively pursuing franchise opportunities.

**Expand by way of Accretive Acquisitions:**

<b>2018 Target</b>	Conduct between \$3M and \$4M of acquisitions.
<b>Q1-2018 Performance</b>	Subsequent to March 31, 2018, on April 2, 2018, the Company purchased the Shred Con business in Upstate New York for \$684,000. Redishred is actively pursuing other acquisitions.

(1) Service related sales excludes recycling sales.

(2) Existing operations includes the existing corporate operations, the franchise system and the existing infrastructure to support the existing locations.

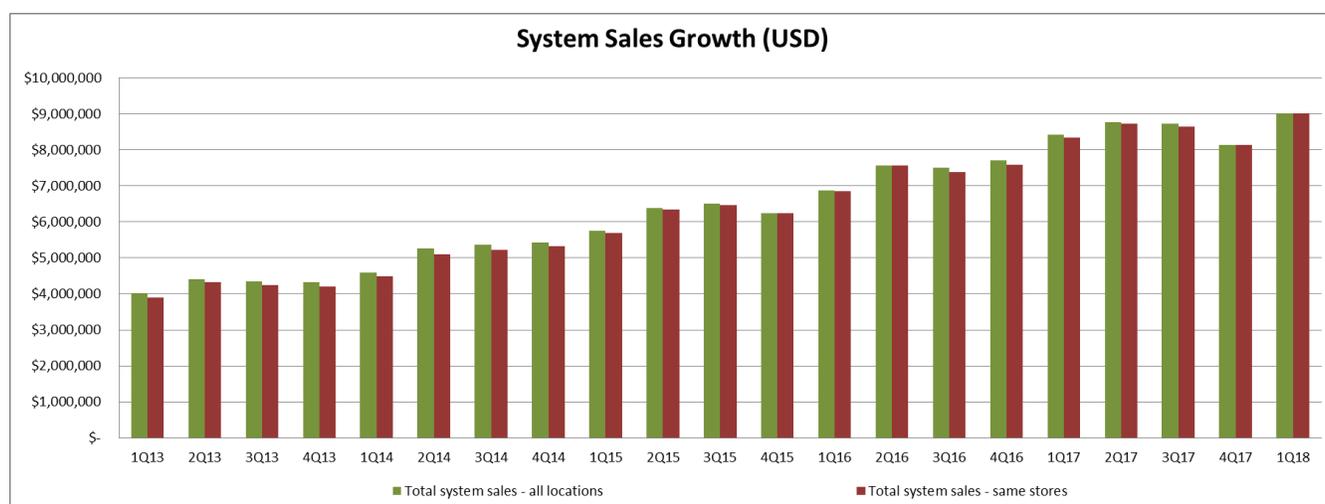
## System Sales

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

For the three months ended March 31,	2018	2017	% Change
Total North American operating locations at period end	<b>29</b>	29	0%
Total system sales (USD)	<b>\$ 9,005,422</b>	\$ 8,420,117	7%
Total system sales (CDN)	<b>\$ 11,391,859</b>	\$ 11,139,815	2%

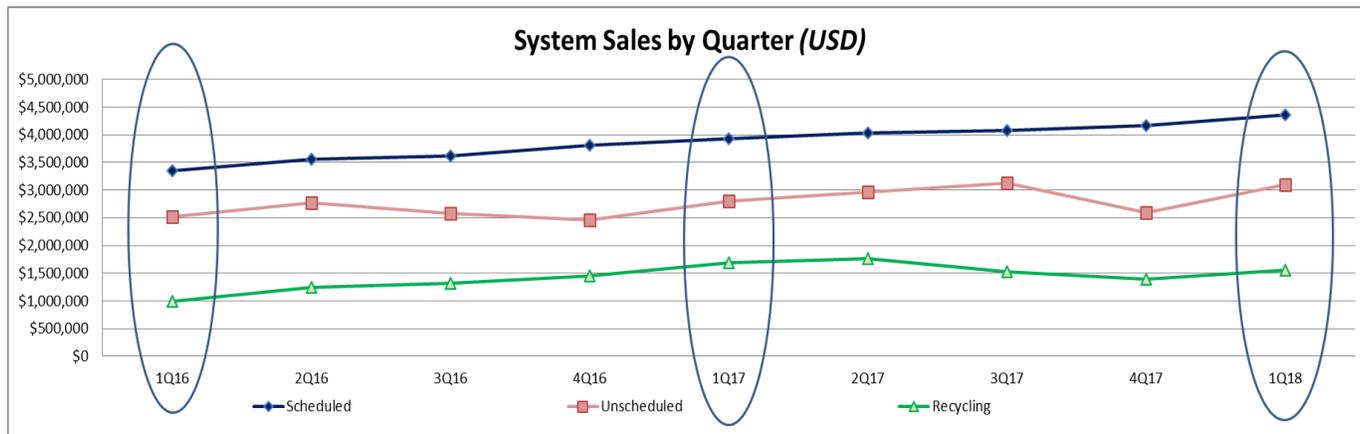
### System Sales Trend:

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



**REDISHRED CAPITAL CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2018**

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



For the three months ended March 31, 2018, service related system sales grew by US\$726,946, an 11% increase over the comparative 2017 period.

Scheduled sales:

Scheduled sales are defined as the revenue generated from customers with regular service that may occur on a weekly, bi-weekly, or monthly basis. Proshred sales and marketing strategies have been and continue to be focused on this particular sales category, as this provides our franchisees and corporate locations with stable and recurring cash flows. This focus resulted in continued growth in this category of 11% over the same period in 2017.

For the three months ended March 31,	<b>2018</b>	<b>2017</b>	<b>% Change</b>
	<b>\$</b>	<b>\$</b>	
Scheduled service sales (USD)	<b>4,362,103</b>	3,930,930	11%

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.

For the three months ended March 31,	<b>2018</b>	<b>2017</b>	<b>% Change</b>
	<b>\$</b>	<b>\$</b>	
Unscheduled service sales (USD)	<b>3,093,076</b>	2,797,303	11%

**REDISHRED CAPITAL CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2018**

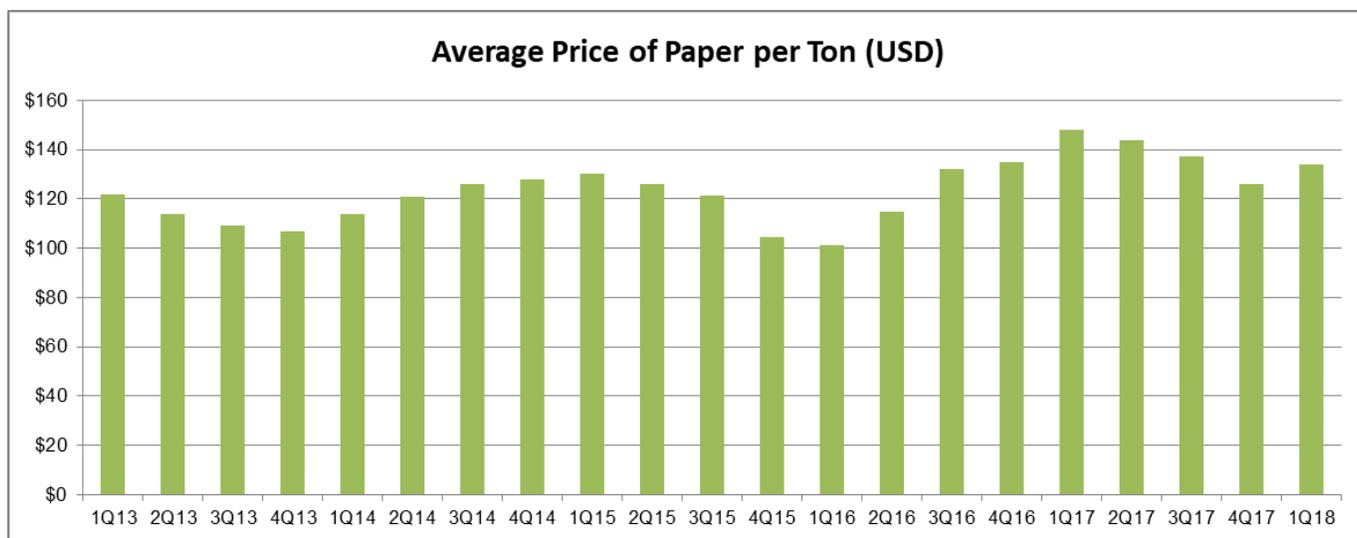
Recycling sales:

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 three months ended March 31,	<b>2018</b>	2017	% Change
	\$	\$	
Recycling sales (USD)	<b>1,550,243</b>	1,691,884	(8)%

Historical Pricing Trends:

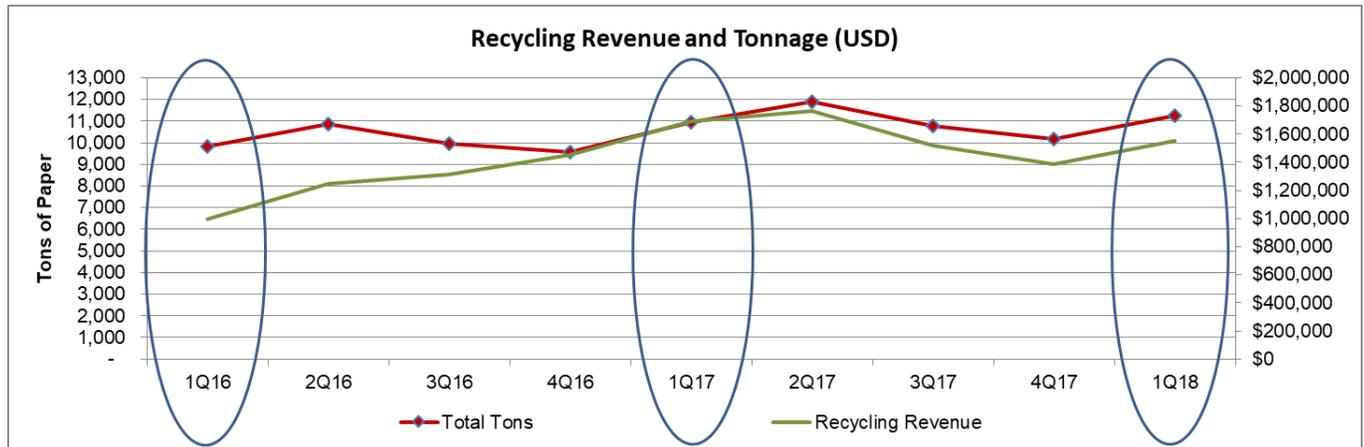
Since the 1<sup>st</sup> quarter of 2017, paper pricing in the Proshred system has been steadily declining until the end of the 2017 year. However the average paper prices in the Proshred system in Q1-2018 have recovered by 6% over the 4<sup>th</sup> quarter of 2017. Despite this, the average price of paper in the Proshred system was 9% lower in Q1-2018 over Q1-2017 as the average price in Q1-2017 was at a four year high. The average paper price was \$134 per ton in Q1-2018 versus \$148 per ton in Q1-2017.



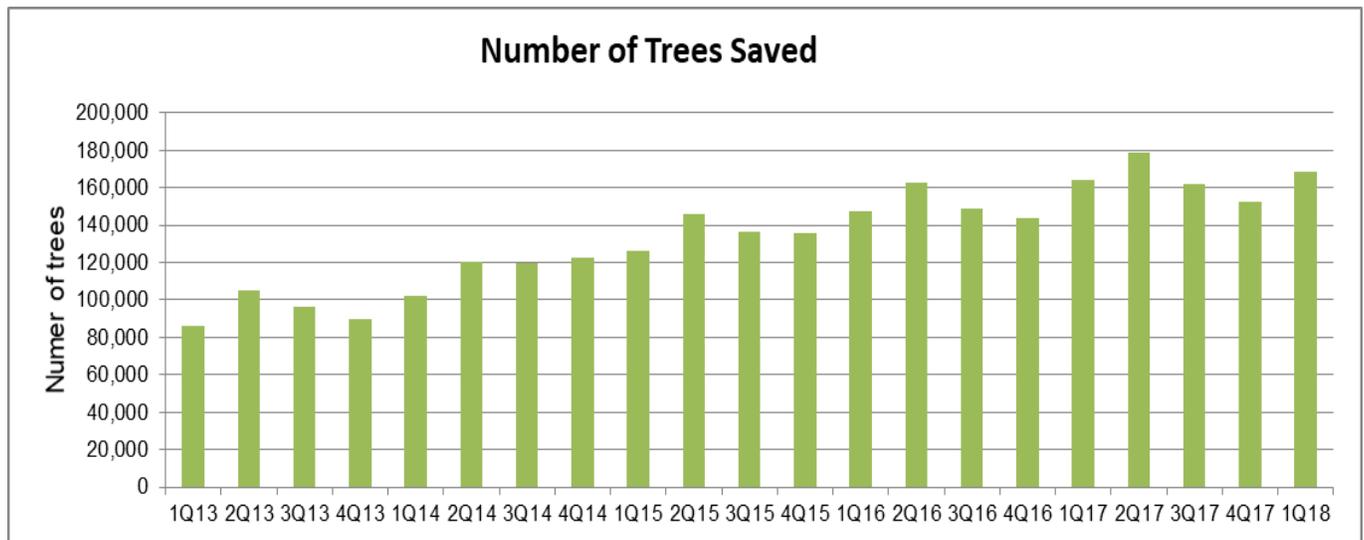
**REDISHRED CAPITAL CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2018**

Historical Volume of Paper:

During Q1-2018, the system shred and recycled 3% more paper than in Q1-2017. The Proshred system shred and recycled 11,200 tons of paper during the first quarter of 2018 (10,900 – during the first quarter of 2017), which equates to 168,000 trees being saved (Q1-2017 – 165,000).<sup>(1)</sup>



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



(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. In Q1-2018, royalty and service fees denominated in US dollars were higher than in Q1-2017 by 1%. With the acquisition of the Northern Virginia franchise on March 31, 2017, the Company now earns corporate location revenue and no longer earns royalty fees from that location. This was offset by the increase in scheduled and unscheduled system sales. As the Company earns all franchising and licensing related revenues in US dollars, which are translated at the average exchange rate for the period, the appreciation of the Canadian dollar over the prior year resulted in a decline in royalty and service fees denominated in Canadian dollars.

For the three months ended March 31,	Total Franchise Locations			Same Franchise Locations		
	2018	2017	% Change	2018	2017	% Change
Total number of franchisees operating at period end	22	23	(4)%	22	22	0%
<b>In CDN:</b>						
Royalty and service fees	\$ 509,414	\$ 528,328	(4)%	\$ 509,414	511,418	0%
<b>In USD:</b>						
Royalty and service fees	\$ 402,700	\$ 399,341	1%	\$ 402,700	386,560	4%

## 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.

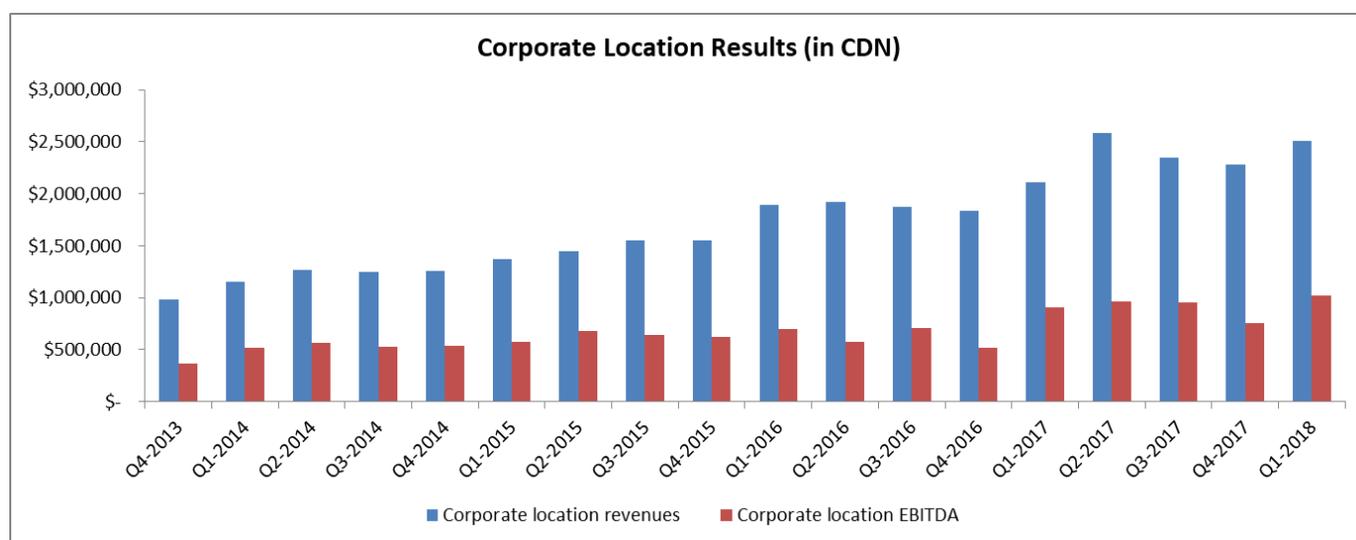
During the three months ended March 31, 2018, the total corporate location revenues grew by 19% over the prior comparative period. The Company also increased EBITDA and operating income by 20% and 17%, respectively, over the 1<sup>st</sup> quarter of 2017. Both EBITDA and operating income reached a record high in Q1-2018.

In CDN, In 000's	Total Corporate Locations			Same Corporate Locations			Non-same Corporate Locations	
	2018	2017	% Change	2018	2017	% Change	2018	2017
For the 3 months ended March 31,	\$	\$		\$	\$		\$	\$
Revenue:								
Shredding service	2,120	1,750	21%	1,845	1,750	5%	275	-
Recycling	386	356	8%	335	356	(6)%	51	-
Total revenue	2,506	2,106	19%	2,180	2,106	4%	326	-
Operating costs	1,484	1,252	19%	1,242	1,252	1%	242	-
EBITDA	1,022	854	20%	938	854	10%	84	-
% of revenue	41%	41%	0%	43%	41%	2%	26%	-
Depreciation – tangible assets	242	185	31%	205	185	11%	37	-
Operating income	780	669	17%	733	669	10%	47	-
% of revenue	31%	32%	(1)%	34%	32%	2%	15%	-

**REDISHRED CAPITAL CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2018**

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 3 months ended March 31,	\$	\$		\$	\$		\$	\$
Total revenue	1,981	1,592	24%	1,723	1,592	8%	258	-
Operating costs	1,173	946	24%	982	946	4%	191	-
EBITDA	808	646	25%	741	646	15%	67	-
% of revenue	41%	41%	0%	43%	41%	2%	26%	-
Depreciation – tangible assets	191	140	36%	162	140	16%	29	-
Operating income	617	506	22%	579	506	15%	38	-
% of revenue	31%	32%	(1)%	34%	32%	2%	14%	-

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



Note (1): The Company began operating the Miami franchise corporately since January 1, 2014.

Note (2): The Company acquired the assets of Recordshred Inc. on December 31, 2015.

Note (3): The Company acquired the North Virginia franchise on March 31, 2017.

Note (4): Corporate operating income does not include an allocation of corporate overhead.

## Corporate Overhead

Corporate overhead expenses for the three months ended March 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, licensing and acquisition. Also included in operating expenses are ongoing stock exchange listing and regulatory costs, professional services, occupancy costs and management salaries and benefits. During the first quarter of 2018, total corporate overhead expenses increased as a result of increased salaries to senior management to align with similar positions in similarly sized service oriented public companies. Stock based compensation expense in the 1<sup>st</sup> quarter of 2018 relates primarily to the issuance of stock options to the Board of Directors as part of a formal compensation program initiated during the third quarter of 2017. Previously, the Board of Directors were compensated informally on an ad hoc basis.

**REDISHRED CAPITAL CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2018**

The compensation program includes an annual retainer for each board member paid by way of stock options. The stock compensation expense related to the issuance of these stock options in the 1<sup>st</sup> quarter was \$134,457. As the stock options vested in full on the day of grant, the full expense was incurred on that day. General, administrative and marketing costs were flat in Q1-2018 over Q1-2017. The Company closely monitors and controls all operating expenses.

For the three months ended March 31,

	<b>2018</b>	2017	% Change
	<b>\$</b>	\$	
<b>In CDN:</b>			
Salaries and benefits	<b>328,974</b>	289,130	(14)%
Stock based compensation	<b>140,752</b>	479	(29285)%
General, administrative and marketing	<b>283,048</b>	285,441	1%
Total corporate overhead expenses	<b>752,774</b>	575,050	(31)%

## 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 three months ended March 31,

	<b>2018</b>	2017	% Change
	<b>\$</b>	\$	
<b>In CDN:</b>			
Depreciation – tangible assets	<b>5,580</b>	2,546	119%
Amortization – intangible assets	<b>78,639</b>	133,522	41%

### Amortization – Corporate locations

Amortization of intangible assets relates to the assets purchased in relation to the corporate locations. As of March 31, 2018, the re-acquired franchise rights were fully depreciated.

For the three months ended March 31,

	<b>2018</b>	2017	% Change
	<b>\$</b>	\$	
<b>In CDN:</b>			
Amortization – intangible assets	<b>82,334</b>	97,400	15%
<b>In USD:</b>			
Amortization – intangible assets	<b>64,836</b>	97,402	33%

## 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**

	<u>2018</u>	<u>2017</u>	<u>% Change</u>
March 31 and December 31 close rate	<b>1.29</b>	1.26	2%
Average rate	<b>1.27</b>	1.32	(4)%

Foreign exchange (gain) loss was as follows:

For the three months ended March 31,	<u>2018</u>	<u>2017</u>	<u>% Change</u>
	\$	\$	
Realized foreign exchange (gain)	<b>(212,261)</b>	(88,171)	141%
Unrealized foreign exchange loss (gain)	<b>59,675</b>	(31,546)	(289)%
Foreign exchange (gain)	<b>(152,586)</b>	(119,717)	27%

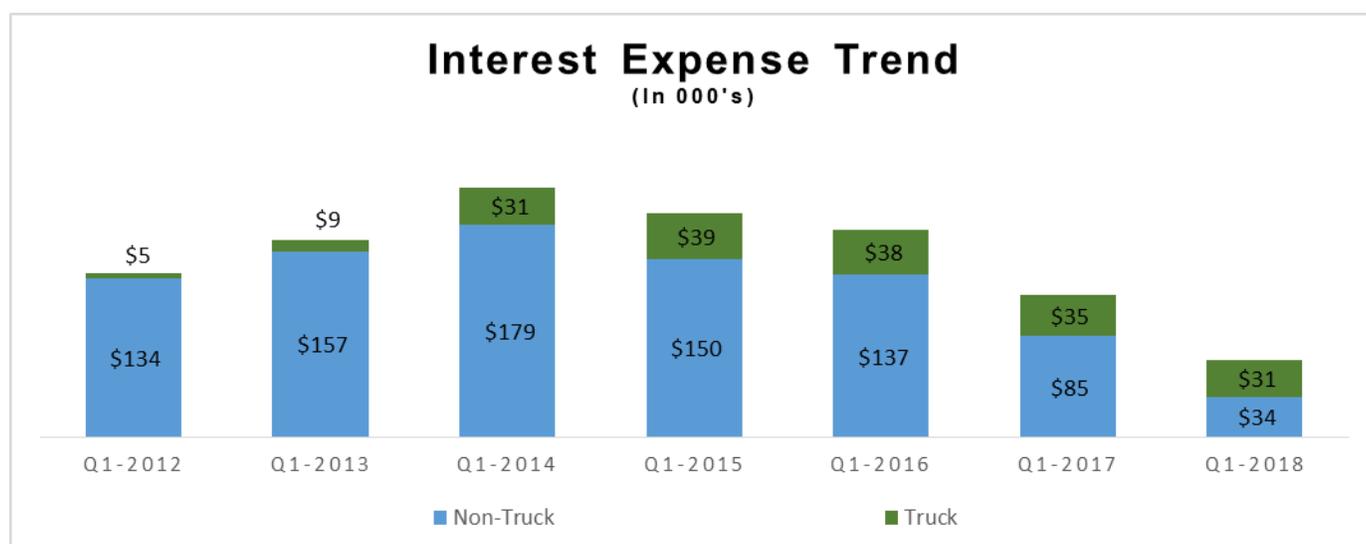
**Interest income and expense**

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 Q1-2018 relates to the following:

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

Interest expense decreased in Q1-2018 in comparison to Q1-2017 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.



**REDISHRED CAPITAL CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2018**

---

For the three months ended March 31,	<b>2018</b>	2017	% Change
	\$	\$	
Interest income	<b>1,192</b>	2,311	(48)%
Interest expense	<b>(65,460)</b>	(120,284)	46%

### Income Tax

During the three months ended March 31, 2018, the Company recorded an income tax recovery of \$21,759, which consists of a deferred income tax recovery of \$83,354 and a current income tax expense of \$61,595. 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.

### Reconciliation of EBITDA to Net Income

For the three months ended March 31,	<b>2018</b>	2017	% Change
	\$	\$	
EBITDA	<b>779,287</b>	807,480	(3)%
Less: depreciation – tangible assets	<b>(247,511)</b>	(187,828)	(32)%
Operating income	<b>531,776</b>	619,652	(14)%
Less: interest expense	<b>(65,460)</b>	(120,284)	46%
Add: interest income	<b>1,192</b>	2,311	(48)%
Operating income less net interest expense	<b>467,508</b>	501,679	(7)%
Less: amortization - intangible assets	<b>(160,723)</b>	(230,924)	30%
Income before foreign exchange and income tax	<b>306,785</b>	270,755	13%
Add: foreign exchange gain	<b>152,586</b>	119,717	27%
Add/Less: income tax recovery (expense)	<b>21,759</b>	(3,602)	704%
Net income	<b>481,130</b>	386,870	2%

**REDISHRED CAPITAL CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**MARCH 31, 2018**

**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.

<i>(in CDN except where noted)</i>	2018		2017			2016		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
System sales (USD)	9,005,422	8,145,441	8,731,719	8,772,960	8,420,117	7,719,401	7,508,739	7,579,784
<b>Consolidated Performance</b>								
Revenue	3,015,867	2,765,868	2,834,413	3,101,767	2,634,451	2,357,247	2,418,386	2,475,518
EBITDA	779,287	534,843	864,596	698,592	807,480	278,776	740,748	753,356
Normalized EBITDA <sup>(2)</sup>	779,287	534,843	864,596	974,912	807,480	427,418	740,748	753,356
Operating Income	531,776	272,924	609,446	434,200	619,652	129,673	580,678	592,385
Normalized Operating Income <sup>(2)</sup>	531,776	272,924	609,446	710,520	619,652	256,137	580,678	592,385
<b>Corporate Location Performance</b>								
Revenue	2,506,453	2,280,150	2,349,342	2,579,361	2,106,123	1,876,057	1,870,736	1,842,693
EBITDA	1,022,647	768,539	952,118	967,171	905,789	514,917	707,997	688,142
Operating Income	780,715	522,254	701,157	705,547	723,055	353,049	547,927	549,259
Income (loss) before taxes from continuing operations	459,371	42,533	(46,404)	(60,640)	390,472	(182,167)	104,823	191,569
Income (loss) attributable to owners of the parent	481,130	606,208	(68,117)	(108,111)	386,870	(17,386)	75,589	188,267
Basic and diluted net income (loss) per share	.01	.01	(.00)	(.00)	.00	(.00)	.00	.01

(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.

## Financial Condition, Capital Resources and Liquidity

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

	<b>March 31, 2018</b>	December 31, 2017	<i>% Change</i>
Working capital	<b>\$1,802,123</b>	\$1,411,259	28%
Total assets	<b>\$11,863,854</b>	\$11,505,832	3%
Total liabilities	<b>\$4,624,442</b>	\$4,815,388	4%
Total current liabilities	<b>\$2,314,281</b>	\$2,246,816	3%
Debt to total assets ratio	<b>0.39</b>	0.42	7%
Fixed Charge Coverage ratio – rolling 12 months	<b>2.16</b>	2.30	(6)%
Total Funded Debt to EBITDA ratio – rolling 12 months	<b>1.14</b>	1.28	11%

The total assets of the Company have increased when compared to December 31, 2017 primarily as a result of the increase in the closing exchange rate as well as the increase in accounts receivable and prepaid expenses. The total liabilities of the Company have decreased over December 31, 2017 as the Company continued to pay down its long-term debt and notes payable. As of March 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's rolling twelve-month fixed charge coverage and its total funded debt to EBITDA ratio are well within its financial covenants limit requirements. At March 31, 2018, the Company's working capital has improved by \$391,000 since December 31, 2017. Management will continue to balance investment in human resources, trucks and technology with continued management of its debt balances.

### *Bank indebtedness*

The Company has senior credit facilities with the 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 March 31, 2018, BMO has advanced \$2 million on the non-revolving term loan, of which the current balance is \$1,739,177 at March 31, 2018. The Company has not received an advance on the operating demand loan as at March 31, 2018.

The Company has also established a \$1 million USD line of credit for the purchase of shredding vehicles with BMO Harris Bank in the United States. The line of credit is open for one year, until October 2018 when an annual credit review is completed. The interest rate is based on prevailing market rates at the time the line is used.

### *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 March 31, 2018, the facility has not been drawn upon.

The Company has the following operating lease commitments:

	\$
Less than 1 year	486,148
Between 1 and 5 years	1,148,180
<b>Total</b>	<u>1,634,328</u>

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.

**REDISHRED CAPITAL CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
MARCH 31, 2018**

The Company did not declare any dividends during the year.

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

	Common stock		Warrants		Total	
	Number	\$	Number	\$	Number	\$
Balance March 31, 2018	47,527,587	13,456,696	1,652,150	610,515	49,179,737	14,067,211
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,	March 31, 2017	December 31, 2016	% Change
	\$	\$	
Net book value	3,665,724	3,772,234	(3)%

The Company's capital assets (not including intangible assets) decreased as a result of continued depreciation of its capital assets and minimal additions in 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. There is an accounts receivable balance of \$2,717 due from this franchise at March 31, 2018 (December 31, 2017 - \$nil). During the three months ended March 31, 2018, the Company earned royalties, service fees and interest income of \$35,610 (during the three months ended March 31, 2017 - \$32,865) from this franchise. Included in notes receivable from the franchisees is a three year note receivable balance of \$17,620, which has an interest rate of 5% per annum.

### Risks and Uncertainties

Please refer to the Redishred 2017 Annual Report for a listing of all risks and uncertainties. There have been no material changes relating to the Company's risks and uncertainties since December 31, 2017, the Company's fiscal year-end.

### Use of estimates and judgements

The preparation of the financial report in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from those estimates and assumptions. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The significant areas of judgements, estimates and assumptions are set out in Note 4 of the consolidated financial statements found in Redishred's 2017 Annual Report. During the most recent interim period, there have been no changes in the Company's accounting policies or procedures and other processes that have materially affected, or are reasonably likely to materially affect, the Company's accounting judgements, estimates and assumptions.

### Investor Relations Activities

The Company does not have any investor relations arrangements.

## **Share Data**

The Company's authorized share capital is unlimited common shares without par value. As at March 31, 2018, there were 47,527,587 issued and outstanding common shares and 1,474,000 options to acquire common shares. During the three months ended March 31, 2018, 25,000 stock options were exercised (during the three months ended March 31, 2017 – 1,125,000 stock options). There were 305,000 stock options granted during the three months ended March 31, 2018 (for the three months ended March 31, 2017 – nil). For the three months ended March 31, 2018, the stock based compensation expense, amounted to \$140,752 (for the three months ended March 31, 2017 – \$479).

## **Subsequent events**

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 two on-site shredding vehicles, other equipment and customer relationships. 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 \$0.63 with a life of five years, expiring on April 15, 2023.

Dated: May 30, 2018

