



K·BRO

ANNUAL REPORT **2018**



WE ARE
DEPENDABLE.

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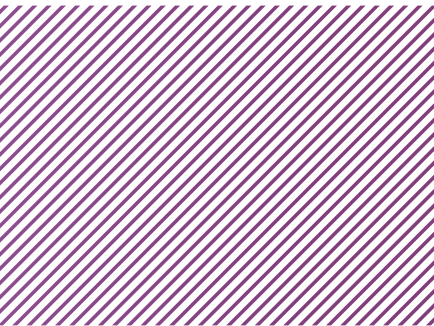
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PRESIDENT'S MESSAGE

KEY ACHIEVEMENTS FOR 2018

Fiscal year 2018 was a year of continuous improvement as we remained committed to upgrading assets. The impact of these improvements resulted in a network of state-of-the-art facilities that helped to generate record annual revenue.

- The \$4.7 million acquisition of 9306145 Canada Corp. ("Linitek") in Calgary closed in October and solidified our position as a market leader in southern Alberta for hospitality and healthcare laundry solutions. Since the closing date in October 2018, we have transitioned all of Linitek's volumes into our high-efficiency Calgary location.
- In K-Bro's largest market in Toronto, we ramped up operations at our new plant, which opened in 2017. Throughout the year, we grew volumes organically through a new and existing customer base.
- In Vancouver, we completed construction on a new state-of-the-art facility, along with significant refurbishments to an existing facility. A third facility was decommissioned with volumes transitioned to the updated facilities. Based on what we have been able to achieve at our Toronto plant, we expect similar reductions in operating costs through improved efficiencies.
- After acquiring Fishers late in 2017, our hospitality segment benefited from a full year of operations in the UK, as we optimized operations and increased market share. Along with contributions to revenue and EBITDA, Fishers has provided us with an important home base in the UK as we continue to consider new international markets.
- Record annual revenue of \$239.5 million, an increase of 40.4% over the previous year, and EBITDA of \$29.6 million.
- K-Bro's focus on investing for the long-term has created a highly efficient, environmentally conscious and cost-effective network across Canada whereby most of our Canadian volumes are processed in newly constructed or modernized facilities across the country. We have also established a foothold into the UK where we apply the same operational principles to our facilities in Scotland and northern England.

Over the past five years, we have committed more than \$200 million to building new, state-of-the-art facilities and refurbishing select existing locations across Canada, along with acquiring two businesses - Linitek Inc. in Calgary, AB, and Fishers in the UK.

We completed the last of our major capital projects with the transition into new and refurbished facilities in Vancouver and now shift our focus from execution to operations and growth. We have the ability to optimize and take advantage of the efficiencies we have worked so hard to put in place. With increased automation through new and upgraded systems and equipment, we aim to reduce and manage operating costs. In 2019, we are now focused on improving margins as we progress through the year with spending focused on maintenance rather than major investment.

K-Bro remains committed to the fundamentals of our business - delivering industry-leading quality and service to our customers and deliver on commitments to our valued customers. We remain committed to a safe culture and environment, including our commitment to diversity and inclusion. As always, our employees, management team and Board of Directors thank you for your continued support and confidence in K-Bro, and we look forward to sharing a successful and exciting 2019 with you.



LINDA MCCURDY



CHAIRMAN'S MESSAGE



2018 MARKED THE END OF K-BRO'S MAJOR CAPITAL SPENDING PROGRAM FOR OUR EXISTING CUSTOMER BASE AND THE BEGINNING OF THE RETURN TO HISTORICAL MARGINS IN CANADA.

Significant investments made in new and upgraded facilities have provided us with a platform to achieve market leading operating costs in Canada. We have capacity to spare in all of our markets at highly efficient, cost-effective facilities.

Late in the year, we acquired Calgary's Linitek and quickly transitioned all volumes into K-Bro's Calgary facility. Linitek is a great example of our approach to acquisitions, to identify profitable and dependable operators in existing markets to consolidate and grow our existing business.

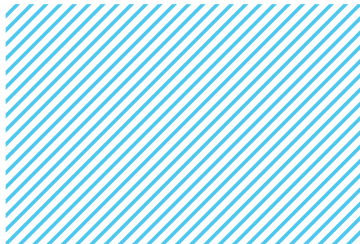
Much like Linitek, the Fishers acquisition in the UK continues to be a point of strength. We have focused on making operational improvements by leveraging our size, scale and experience in Canada and applying lessons learned. We have been able to grow market share and are confident we can strengthen our position further. We also view Fishers as opportunity to grow our business overseas.

With no near-term major investments planned going into 2019 to support our existing customer base and a significantly reduced capital spending program, we expect to return to historical EBITDA margins for our Canadian operations during the latter half of the year.

On behalf of the entire Company, I sincerely thank all stakeholders for their continued interest in and support of K-Bro. We look forward to a successful 2019.



ROSS SMITH



SCOTLAND

VICTORIA

VANCOUVER

CALGARY

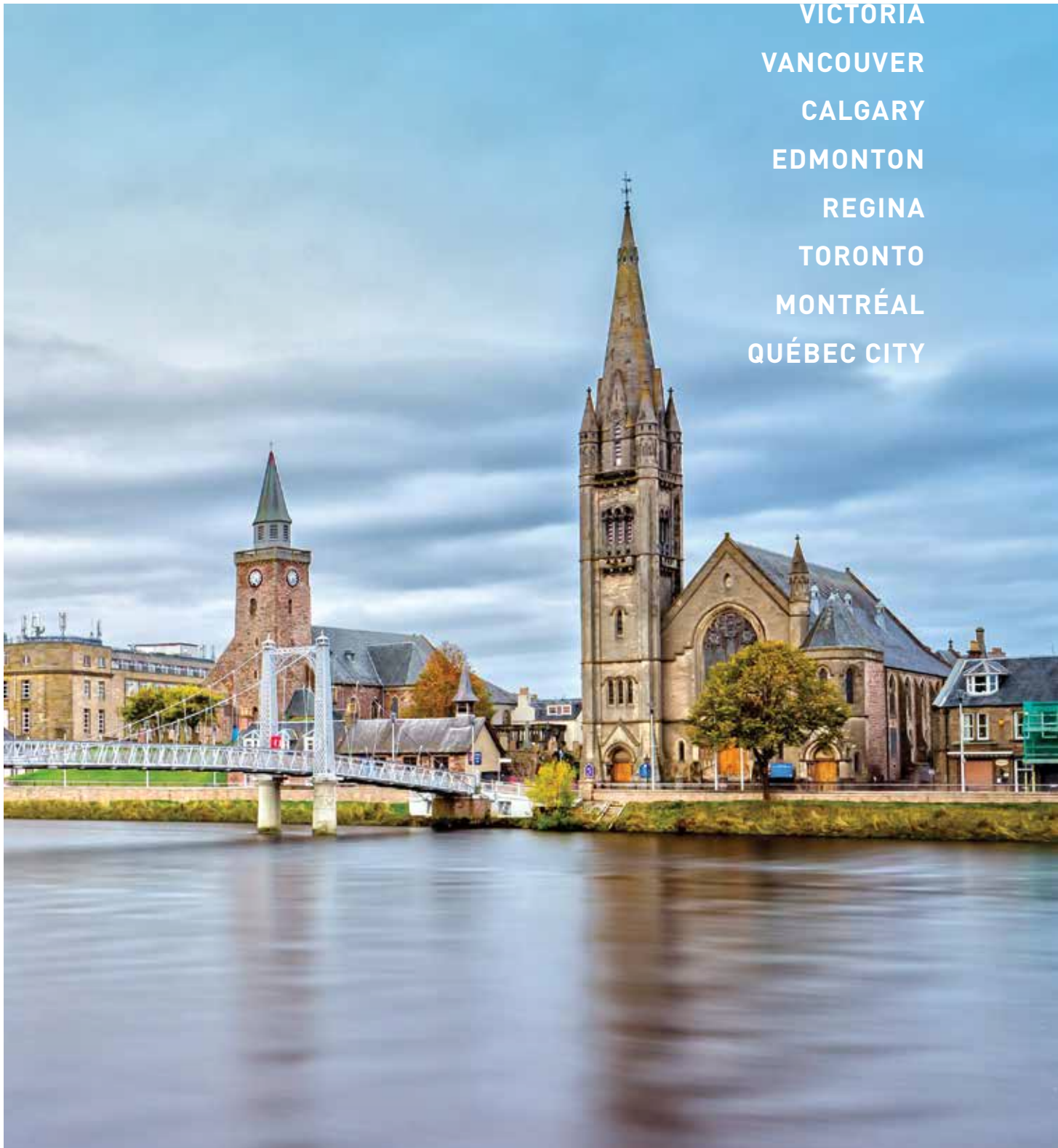
EDMONTON

REGINA

TORONTO

MONTRÉAL

QUÉBEC CITY



OFFICERS & DIRECTORS

K-BRO IS THE LARGEST HEALTHCARE & HOSPITALITY LAUNDRY & LINEN PROCESSOR IN CANADA, & WITH THE ACQUISITION OF FISHERS WE ARE NOW ONE OF THE LARGEST IN THE UK AND EUROPE.

We operate 15 facilities and three distribution centers, including nine facilities and two distributions centers in Canada, and six facilities and one distribution center in the UK (Scotland and the North East of England).

Our core values remain central to our reputation, and we continue to relentlessly focus on providing industry-leading quality and service. Our ability to deliver on commitments to our valued customers remains second to none.

K-Bro provides the vital products and services that help people heal, travel, live, and play. We're helping hospitals and extended care centers care for the young, old and vulnerable in environmentally responsible ways. Our responsibility also extends to ensuring that we have a safe culture at K-Bro. As our society becomes more diverse, we integrate our commitment to responsibility into our new businesses, employees and the communities in which we live and work.

“K-BRO’S FOCUS ON INVESTING FOR THE LONG TERM HAS CREATED A HIGHLY EFFICIENT, ENVIRONMENTALLY CONSCIOUS AND COST-EFFECTIVE NETWORK ACROSS CANADA.”

- LINDA MCCURDY

President & Chief Executive Officer





LINDA MCCURDY



ROSS SMITH



KRISTIE PLAQUIN



MICHAEL PERCY



SEAN CURTIS



STEVEN MATYAS



MATTHEW HILLS



RYO UEHARA



DIMITRI HAMM



KEVIN STEPHENSON



JEFF GANNON



KEVIN MCELGUNN



SEAN JACKSON



ANDREW MACKEEEN



LUCY RENAUT



SCOTT INGLIS



MICHAEL JONES

"2018 MARKED THE END OF K-BRO'S MAJOR CAPITAL SPENDING PROGRAM AND THE BEGINNING OF THE RETURN TO HISTORICAL CANADIAN MARGINS."

- ROSS SMITH Chair



FINANCIAL HIGHLIGHTS

The following unaudited financial data has been derived from K-Bro's consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP. The information set forth below should be read in conjunction with the Management's Discussion & Analysis, Consolidated Financial Statements and Notes sections of this Annual Report.

REVENUE UP

40.4%

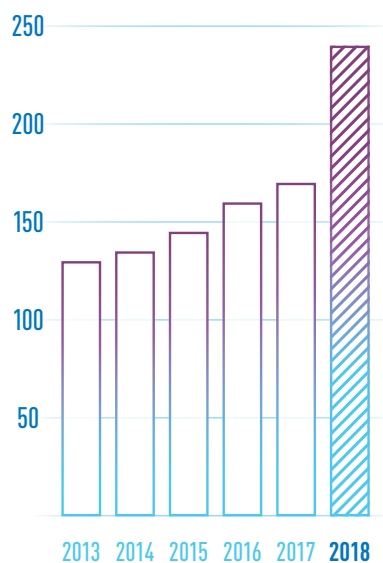
EBITDA UP

23.3%

ADJUSTED EBITDA UP

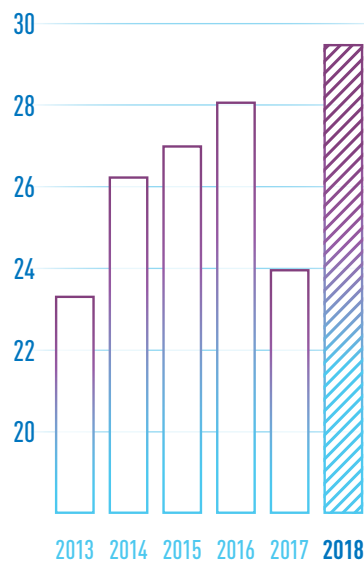
10.3%

REVENUE



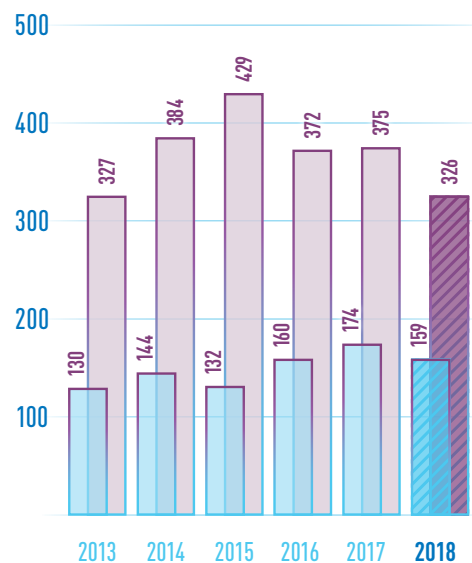
(In millions of Canadian dollars)
Years ended December 31

EBITDA & ADJUSTED EBITDA



(In millions of Canadian dollars)
Years ended December 31

TOTAL SHAREHOLDER RETURN



Legend: S&P/TSX Composite Index (light blue), K-Bro Linen Inc. (dark blue)
\$100 investment in 2013

¹ The total shareholder return graph reflects the total cumulative return, assuming reinvestment of all dividends, of \$100 invested on December 31, 2013 in each of the Shares of the Corporation and the S&P/TSX Composite (TRIV) Index.

² The year-end values of each investment shown on the total shareholder return graph are based on share price appreciation plus dividend reinvestment.

PROFILE

K-BRO PROVIDES THE VITAL PRODUCTS & SERVICES THAT HELP PEOPLE HEAL, TRAVEL, LIVE & PLAY.

We are the largest healthcare and hospitality laundry and linen processor in Canada and one of the largest in the UK and Europe. We operate 15 facilities and three distribution centers, including nine facilities and two distributions centers across Canada, and six facilities and one distribution center in the UK (Scotland and the North East of England).



SPOTLIGHT ON VANCOUVER

In Vancouver, K-Bro completed construction of a new facility along with renovations made to another by the close of 2018. As we continue to add business from new and existing clients in this important market, we are in an even better position to offer competitive pricing through increased efficiencies and reduced operating costs.



GOALS FOR 2019

CONTINUE TO GROW MARKET SHARE

K-Bro has strong market positions within the regions it operates. The Canadian and UK markets are large with significant organic and acquisition growth opportunities. We will continue to focus on organic growth through new and existing clients, and through strategic acquisitions.

SECURE ADDITIONAL LONG-TERM CONTRACTS THAT OFFER STEADY, RECURRING REVENUE

We have a solid customer base with top-tier companies in both healthcare and hospitality with key customers retained over long periods of time. 54% of Canada-based revenue is from contracts that extend from 2023 and beyond for our Canadian operations and we look to add to that base.

OPTIMIZE OUR VERTICALLY INTEGRATED BUSINESS MODEL TO CONTROL PROCESS AND COSTS

Integrated services reduce costs and strengthens competitive advantage. Our state-of-the-art facilities in Toronto and Vancouver (our two biggest markets) along with modernized facilities across Canada increase efficiencies and reduce operating costs.

BUILD ON TRACK RECORD OF VALUE CREATION THROUGH OPERATING & FINANCIAL STRATEGY

Revenue and EBITDA have steadily grown. We take a disciplined and systematic approach to management of the business, which continues to provide strong cash flow. Our balance sheet provides the right mix of leverage with the flexibility to grow the business. We aim to build on our successful track record of value creation.





Years ended December 31,

	2018	2017	2016	2015	2014	2013	2012
Income Statement Data							
Revenue	239,534	170,559	159,089	144,537	136,440	131,202	126,390
EBITDA	29,581	23,985	28,236	27,140	26,241	23,317	24,517
EBITDA (%)	12.3	14.1	17.7	18.8	19.2	17.8	19.4
Net earnings	6,169	5,718	11,527	12,068	12,198	10,336	11,149
Net earnings per share (Diluted)	0.59	0.63	1.44	1.52	1.72	1.47	1.59
Balance Sheet Data							
Working capital	34,825	32,008	13,766	8,670	21,717	9,434	8,064
Long-term debt	70,203	42,780	25,800	2,349	0	19,640	5,818
Other Financial Data							
Distributable cash per share	2.36	2.20	2.76	2.69	2.85	2.61	2.72
Payout ratio (%)	51.1	55.5	43.5	44.8	42.0	44.2	41.8
Price to earnings multiple (12 months trailing)	56.7	65.6	29.3	33.5	26.9	27.0	18.1
Price to EBITDA multiple (12 months trailing)	11.9	15.7	11.9	14.9	12.5	12.0	8.2
Return on shareholders' equity (ROE)(%)	3.1	2.8	9.9	10.7	11.1	14.5	16.5
Total shareholder return, YTD (%)	16.2	0.9	14.9	13.1	19.4	41.2	34.8
Total shareholder return, 5 yrs (%)	14.5	19.3	66.4	155.0	182.9	235.2	253.8
Market capitalization	431,794	434,211	338,190	406,872	367,023	280,976	203,613
Share price:							
High	41.71	45.00	50.98	56.99	47.90	40.50	30.18
Low	32.00	37.39	36.69	43.00	36.90	28.38	21.20
Close	33.44	41.32	42.15	50.95	46.11	39.60	28.86

(\$ Thousands, except per share data and percentages)



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MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

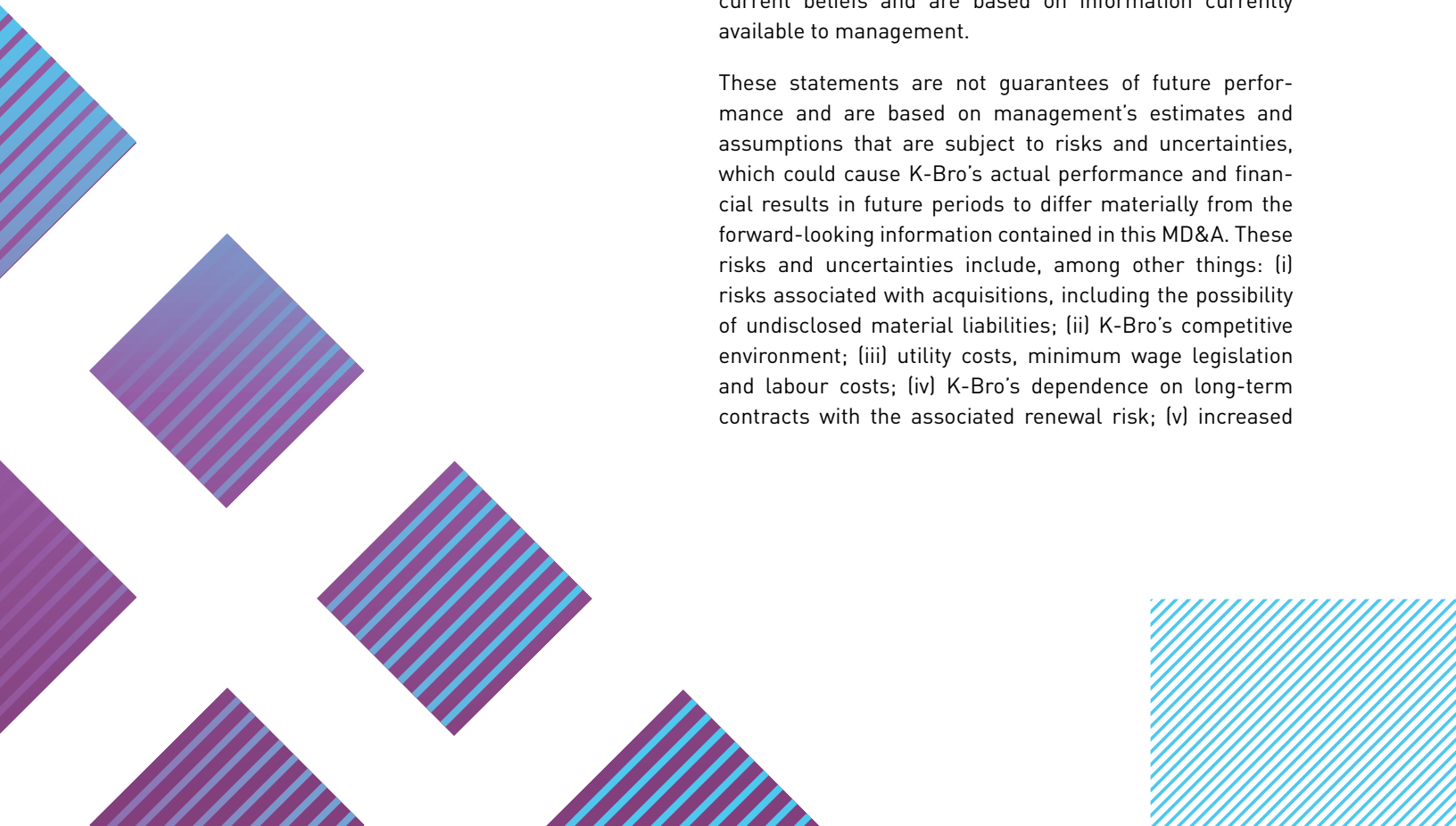
The following Management's Discussion and Analysis ("MD&A") is supplemental to, and should be read in conjunction with, the audited Consolidated Financial Statements of K-Bro Linen Inc. ("the Corporation") for the years ended December 31, 2018 and 2017, as well as the unaudited interim condensed Consolidated Financial Statements for the periods ended March 31, 2018, June 30, 2018 and September 30, 2018. The Corporation and its wholly-owned subsidiaries, including K-Bro Linen Systems Inc. and Fishers Topco Ltd., are collectively referred to as "K-Bro" in this MD&A.

Management is responsible for the information contained in this MD&A and its consistency with information presented to the Audit Committee and Board of Directors. All information in this document has been reviewed and approved by the Audit Committee and Board of Directors. This review was performed by management with information available as of March 13, 2019.

In the interest of providing current holders ("Shareholders") of common shares of K-Bro Linen Inc. and potential investors with information regarding current results and future prospects, our public communications often include written or verbal forward-looking statements. Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions and courses of action, and include future-oriented financial information.

This MD&A contains forward-looking information that represents internal expectations, estimates or beliefs concerning, among other things, future activities or future operating results and various components thereof. The use of any of the words "anticipate", "continue", "expect", "may", "will", "project", "should", "believe", and similar expressions suggesting future outcomes or events are intended to identify forward-looking information. Statements regarding such forward-looking information reflect management's current beliefs and are based on information currently available to management.

These statements are not guarantees of future performance and are based on management's estimates and assumptions that are subject to risks and uncertainties, which could cause K-Bro's actual performance and financial results in future periods to differ materially from the forward-looking information contained in this MD&A. These risks and uncertainties include, among other things: (i) risks associated with acquisitions, including the possibility of undisclosed material liabilities; (ii) K-Bro's competitive environment; (iii) utility costs, minimum wage legislation and labour costs; (iv) K-Bro's dependence on long-term contracts with the associated renewal risk; (v) increased



capital expenditure requirements; (vi) reliance on key personnel; (vii) changing trends in government outsourcing; (viii) changes or proposed changes to minimum wage laws in Ontario, British Columbia, Alberta and the United Kingdom (the "UK"), which could have an adverse effect on expenses in respect of employees situated in those jurisdictions and while a portion of such expenses may be passed on to or be recoverable from customers, there can be no assurances that that will occur; (ix) the availability of future financing and (x) foreign exchange rates. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information include: (i) volumes and pricing assumptions; (ii) expected impact of labour cost initiatives; (iii) frequency of one-time costs impacting quarterly and annual financial results; (iv) foreign exchange rates; and (v) the level of capital expenditures. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements regarding forward-looking information included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A. Forward looking information included in this MD&A includes the expected annual healthcare revenues to be generated from the Corporation's contracts with new customers, the anticipated capital costs for the Toronto and Vancouver facilities, calculation of costs, including one-time costs impacting the quarterly financial results, and statements with respect to future expectations on margins and volume growth.

All forward-looking information in this MD&A is qualified by these cautionary statements. Forward-looking information in this MD&A is presented only as of the date made. Except as required by law, K-Bro does not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

This MD&A also makes reference to certain measures in this document that do not have any standardized meaning as prescribed by IFRS and, therefore, are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers. Please see "Terminology" for further discussion.



INTRODUCTION

CORE BUSINESS

The Corporation is the largest owner and operator of laundry and linen processing facilities in Canada and a market leader for laundry and textile rental services in Scotland and the North East of England. K-Bro and its wholly owned subsidiaries, operate across Canada and the United Kingdom ("UK"), providing a range of linen services to healthcare institutions, hotels and other commercial accounts that include the processing, management and distribution of general linen and operating room linen.

The Corporation's operations in Canada include nine processing facilities and two distribution centres under three distinctive brands: K-Bro Linen Systems Inc., Buanderie HMR, and Les Buanderies Dextraze. The Corporation operates in ten Canadian cities: Québec City, Montréal, Toronto, Regina, Saskatoon, Prince Albert, Edmonton, Calgary, Vancouver and Victoria.

The Corporation's operations in the UK include Fishers Topco Ltd. ("Fishers") which was acquired by K-Bro on November 27, 2017. Fishers was established in 1900 and is a leading operator of laundry and linen processing facilities in Scotland, providing linen rental, workwear hire and cleanroom garment services to the hospitality, healthcare, manufacturing and pharmaceutical sectors. The Corporation operates six sites, including one distribution center, which are located in Cupar, Perth, Newcastle, Livingston, Inverness and Coatbridge.

INDUSTRY & MARKET

In Canada, K-Bro provides laundry and linen services to healthcare, hospitality and other commercial customers. Typical services offered by K-Bro include the processing, management and distribution of general and operating room linens, including sheets, blankets, towels, surgical gowns and drapes and other linen. Other types of processors in K-Bro's industry include independent privately owned facilities (i.e. typically small, single facility companies), public sector central laundries and public and private sector on-premise laundries (known as "OPLs"). Participants in other sectors of the Canadian laundry and linen services industry, such as uniform rental companies (which own and launder uniforms worn by their customers' employees) typically do not offer services that significantly overlap with those offered by K-Bro.

In the UK, Fishers provides laundry and linen services to healthcare, hospitality and other commercial customers. Typical services offered by Fishers include the processing, management and distribution of general linen, workwear and clean room garment services. Other types of processors in Fishers industry in the UK include publicly traded companies, independent privately owned facilities (i.e., typically, small single facility companies), public sector central laundries and public and private sector OPLs.

Our partnerships with healthcare institutions and hospitality clients across Canada and the UK demonstrate K-Bro's commitment to building relationships that foster continuous improvement, providing flexibility to adjust to changing circumstances as required and which incorporate incentives, penalties and the sharing of risks and rewards as circumstances warrant.

In this competitive industry, K-Bro is distinctive in its ability to deliver products and services that provide value to our customers. Management believes that the healthcare and hospitality sectors of the laundry and linen services industry represent a stable base of annual recurring business with opportunities for growth as additional healthcare beds and funds are made available to meet the needs of an aging demographic.

INDUSTRY CHARACTERISTICS & TRENDS

Management believes that the industry in which K-Bro operates exhibits the following characteristics and trends:

Stable Industry with Moderate Cyclicity – As evidenced by the stability in the number of approved hospital beds in the healthcare system and hotel rooms in the hospitality industry. The potential for step-changes in volumes and revenues that align with contractual arrangements exists within this industry. Service relationships are generally formalized through contracts in the healthcare sector that are typically long term (from five to ten years), while contracts in the hospitality sector usually range from two to five years.

Outsourcing and Privatization – In Canada, healthcare institutions and regional authorities are facing funding pressures and must continually evaluate the allocation of scarce resources. Consequently, there are often advantages to healthcare institutions in outsourcing the processing of healthcare linen to private sector laundry companies such as K-Bro because of the economies of scale and significant management expertise that can be

provided on a more comprehensive and cost-effective basis than customers can achieve in operating their own laundry facilities.

Fragmentation – Most cities have at least one and sometimes several private sector competitors operating in the healthcare and hospitality sectors of the laundry and linen services industry. Management believes that the presence of these operators provides consolidation opportunities for larger industry participants with the financial means to complete acquisitions.

CUSTOMERS & PRODUCT MIX

K-Bro's Canadian customers include some of the largest healthcare institutions and hospitality providers in Canada. In the UK, Fishers customers include some of the largest hotel chains operating in Scotland. Healthcare customers include acute care hospitals and long-term care facilities primarily in Canada. Most of K-Bro's hospitality customers (typically greater than 250 rooms) generate between 0.5 million and 3 million pounds of linen per year. Most healthcare customers generate between 0.5 million pounds of linen per year for a hospital and up to 41 million pounds of linen per year for a Canadian healthcare region.

STRATEGY

K-Bro maintains the following three-part strategic focus:

Secure and Maintain Long-Term Contracts with Large Healthcare and Hospitality Customers – K-Bro's core service is providing high quality laundry and linen services at competitive prices to large healthcare and hospitality customers under long-term contracts. K-Bro's contracts in the healthcare sector typically range from five to ten years in length. Contracts in the hospitality sector typically range from two to five years.

Extend Core Services To New Markets – Management has demonstrated its ability to successfully expand K-Bro's business into new markets from its established bases. Since 2005, K-Bro has entered four new geographic markets across Canada, and in late 2017 entered into the UK market. These new markets have contributed significantly to K-Bro's growth. Management believes that new outsourcing opportunities will continue to arise in the near to medium-term and that K-Bro is well-positioned for continued growth, particularly as healthcare and hospitality institutions continue to increase their focus on core services and confront pressures for capital and cost savings.

Management may in the future expand its core services to new markets either through acquisitions or by establishing new facilities. Its choice of areas for expansion will depend on the availability of suitable acquisition candidates, the volume of healthcare and hospitality linen to be processed and the policies of applicable governments.

Introduce Related Services – In addition to focusing on its core services, the Corporation also attempts to capitalize on attractive business opportunities by introducing closely-related services that enable it to provide more complete solutions to K-Bro's healthcare and hospitality customers. These related service offerings include K-Bro Operating Room ("KOR") services and on-site services. K-Bro performs the sterilization of operating room linen packs for six major hospitals in Toronto.

FOURTH QUARTER OVERVIEW

Revenue increased in the fourth quarter of 2018 to \$59.4 million or by 25.1% compared to 2017. This increase was due to volume from the acquisition of Fishers, acquisition of Linitek, additional awarded healthcare volume from the Vancouver lower mainland contract, organic growth at existing customers, and new customers secured in existing markets.

EBITDA (see Terminology) increased in the fourth quarter to \$6.6 million from \$4.5 million in 2017, which is an increase of 48.6%. On a consolidated basis, the EBITDA margin increased from 9.4% in 2017 to 11.1% in 2018. For the UK division, corporate costs in the prior year include one-time costs of \$2.8 million related to transaction costs for the acquisition of Fishers. For the Canadian division, the EBITDA margin decreased, in line with management expectations, to 10.7% from 16.3% for the comparative quarter of 2017. The change in the Canadian EBITDA margin, relates to the Vancouver transition, rising minimum wage rates in advance of future revenue price escalators, price increases from renewals of out-sourced freight contracts, and higher carbon taxes in Alberta as well as tight labour markets in both British Columbia and Quebec, offset with the efficiencies gained as a result of the capital expenditures made in Toronto. Management estimates the costs incurred related to the Vancouver transition and other one-time costs for the quarter were approximately \$1.1 million. After adjusting for these one-time costs, the Canadian EBITDA margin would have been 13.2% as compared to 10.7% on an unadjusted basis.

SELECTED ANNUAL FINANCIAL INFORMATION

(\$ Thousands, except percentages and per share amounts)	Canadian Division 2018	UK Division 2018	2018	Canadian Division 2017	UK Division ⁽¹⁾ 2017	2017	2016 ⁽¹⁾
Revenue	179,889	59,645	239,534	165,831	4,728	170,559	159,089
EBITDA	21,370	8,211	29,581	26,493	(2,508)	23,985	28,131
Net earnings (loss)	2,701	3,468	6,169	8,599	(2,881)	5,718	11,527
Adjusted net earnings	2,701	3,468	6,169	8,599	(50)	8,549	11,527
Net earnings (loss) per share:							
Basic	0.258	0.331	0.589	0.947	(0.317)	0.629	1.449
Diluted	0.257	0.330	0.588	0.943	(0.316)	0.627	1.443
Adjusted net earnings (loss) per share:							
Basic	0.258	0.331	0.589	0.947	(0.006)	0.941	1.449
Diluted	0.257	0.330	0.588	0.943	(0.005)	0.938	1.443
Total assets			322,229			295,213	168,289
Long-term debt			70,203			42,780	25,800
Weighted average number of shares outstanding:							
Basic			10,466,458			9,083,693	7,955,026
Diluted			10,500,014			9,114,874	7,986,729

1 Prior to the acquisition of Fishers on November 27, 2017, K-Bro was reporting and operating as a single Canadian division.

SUMMARY OF 2018 RESULTS, KEY EVENTS & OUTLOOK

FINANCIAL GROWTH

Net earnings were \$6.2 million or \$0.59 per Common Share (basic). Cash flow from operating activities was \$17.6 million and distributable cash flow was \$24.8 million. Revenue increased in fiscal 2018 to \$239.5 million or by 40.4% compared to 2017. This increase was due to the acquisition of Fishers, acquisition of Linitek, additional awarded health-care volume from the Vancouver lower mainland contract, Trillium Health Partners volume, William Osler Health System volume, organic growth at existing customers, and new customers secured in existing markets.

EBITDA (see Terminology) increased in 2018 to \$29.6 million or by 23.3% compared to \$24.0 million in 2017. The Corporation's EBITDA margin decreased from 14.1% in 2017 compared to 12.3% in 2018. For the UK division, corporate costs in the prior year include one-time costs of \$2.8 million related to transaction costs for the acquisition of

Fishers. The change in the Canadian EBITDA margin relates to the Vancouver transition, rising minimum wage rates in advance of future revenue price escalators, as well as tight labour markets in both British Columbia and Quebec, increased carbon taxes and increases in out-sourced freight costs, offset with the efficiencies gained as a result of the capital expenditures made in Toronto as well as costs related to the acquisition of Fishers included in Q4 2017. Management estimates the costs incurred related to the Vancouver transition and other one-time costs for the year were approximately \$6.7 million. After adjusting for these one-time costs, the Canadian EBITDA margin would have been 15.6% as compared to 11.9% on an unadjusted basis.

Near-Term and Long-Term Growth and Margin Impact

Management has completed its strategy in its Toronto and Vancouver markets that it believes will position K-Bro for accelerated growth in its healthcare and hospitality

businesses. The strategy included capital investments to build large efficient state-of-the-art facilities with meaningful additional capacity in Toronto and Vancouver. In addition, K-Bro made investments to upgrade one of its previous Vancouver plants to create a more efficient facility with meaningful additional capacity.

These investments have been made because management believes that new opportunities, both current and future, justify the significant additional capacity. The construction and/or upgrade of three of our large facilities enables us to bid on a significant amount of additional business, but has created margin pressure through 2017 and 2018 as K-Bro incurred significant one-time and transition costs associated with these large investments. Management believes that the one-time and transition costs incurred in 2018 will position K-Bro to achieve more growth and a lower cost structure into the future and that K-Bro will return to normalized margins, for its Canadian operations, closer to those achieved in 2015 as we progress through 2019.

Key events in our markets are summarized below.

Vancouver Facility Development

K-Bro has now completed the development of a new state-of-the-art facility located in Burnaby. As at December 31, 2018, K-Bro has completed the transition to the new facility and has incurred all the capital cost related to this facility. The new facility has enabled K-Bro to expand current capacity, to accommodate the additional awarded volume, and to provide the opportunity to consolidate the healthcare volume from its existing two Vancouver-area facilities.

In addition to investing in the new facility, K-Bro has upgraded and replaced equipment at one of its existing Vancouver-area facilities, which is being used to process the consolidated hospitality volume. During the third quarter of 2018, K-Bro completed the decommissioning of the third Vancouver-area facility, with related assets and volume transitioned to the existing upgraded Vancouver K-Bro facility.

K-Bro believes it will achieve significant operating efficiencies at both the new Vancouver plant and the upgraded Vancouver plant. It is anticipated that transition costs associated with both plants will continue to negatively impact EBITDA margins over the first and second quarters of 2019.

Business Acquisition

On October 3, 2018, the Corporation announced that it successfully completed the previously announced \$4.7 million acquisition (the "Acquisition") of Linitek, a private laundry and linen services company operating in Calgary, Alberta. The acquisition is accounted for using the

acquisition method, whereby the purchase consideration is allocated to the net assets acquired.

Alberta Contract Award

On March 1, 2019, K-Bro was awarded a one year extension to provide laundry and linen services to Calgary Alberta Health Services. The contract extends the existing relationship between K-Bro and Alberta Health Services Calgary.

National Contract Award

Effective January 1, 2019, K-Bro replaced its existing agreement with Avendra Canada, Inc. ("Avendra") with a new five-year agreement pursuant to which K-Bro became an Avendra-approved provider of laundry and linen services across Canada, with exclusivity in K-Bro's markets commencing at various stages throughout the term. Avendra is North America's leading hospitality procurement and supply chain service provider. While K-Bro has existing contracts with and services the customers initially covered by the agreement, the new arrangement with Avendra will strengthen its relationships with these customers and secure K-Bro's position with them as well as open up new opportunities in the hospitality segment. These existing customers currently represent approximately 24% of K-Bro's Canadian hospitality revenue for the year ended December 31, 2018.

OUTLOOK

"The Linitek acquisition is a great example of our strategy to acquire high-quality operators in order to grow market share in key regions, and to focus on operations that are immediately accretive to earnings," said Linda McCurdy, President and Chief Executive Officer at K-Bro. "We believe the acquisition adds significant and immediate value to shareholders by strengthening our competitive position and growing market share in Calgary."

"With the successful transition to our newly constructed state-of-the-art Vancouver facility, we view 2018 as a transition year that have decreased margins, however going forward will enable us to realize additional efficiencies, increase capacity and increase market share. We believe that the one-time and transition costs incurred in 2018 will position the company to achieve more growth and a lower cost structure into the future and that the company will return to normalized margins closer to those achieved in 2015 as it progresses through 2019 for its Canadian operations. We remain excited about our growth plans and are confident in our ability to continue to provide value to our customers and our Shareholders."

K-Bro's focus is on profitable growth in the years to come as we execute our strategy of expanding geographically and adding new services for our customers. K-Bro is committed to building value for our shareholders, our customers and our employees.

K-Bro also has several proposals pending and has entered into discussions with potential new customers. In addition, K-Bro continues to seek potential acquisition candidates. Neither the timing nor the degree of likelihood of success of any of these proposals or acquisitions can be stated with any degree of accuracy.

EFFECTS OF ECONOMIC UNCERTAINTY

K-Bro believes that it is positioned to withstand market volatility and uncertainty given that:

- Approximately 53.8% of the revenues were from large publicly funded Canadian healthcare customers which are geographically diversified across multiple provinces; and
- At December 31, 2018, K-Bro had unutilized borrowing capacity of \$28.6 million or 28.6% of the revolving credit line available.

RESULTS OF OPERATIONS

KEY PERFORMANCE DRIVERS

K-Bro's key performance drivers focus on growth, profitability, stability and cost containment in order to maintain dividends and maximize Shareholder value. The following table outlines our results on a period-to-period comparative basis in each of these areas:

(\$ Thousands, except percentages and per share amounts)

Category	Indicator	Canadian Division Q4 2018	UK Division Q4 2018	Q4 2018	Canadian Division Q4 2017	UK Division ⁽³⁾ Q4 2017	Q4 2017
Growth	EBITDA ⁽¹⁾	-30.5%	171.0%	48.6%	10.1%		-29.6%
	Adjusted EBITDA ⁽⁴⁾	-30.5%	451.4%	-9.1%	10.1%		15.2%
	Revenue	5.3%	204.0%	25.1%	9.0%		21.0%
	Distributable cash flow			109.7%			-52.0%
Profitability	EBITDA ⁽¹⁾	4,838	1,781	6,619	6,961	(2,508)	4,453
	EBITDA margin	10.7%	12.4%	11.1%	16.3%	-53.0%	9.4%
	Adjusted EBITDA ⁽⁴⁾	4,838	1,781	6,619	6,961	323	7,284
	Adjusted EBITDA margin ⁽²⁾	10.7%	12.4%	11.1%	16.3%	6.8%	15.3%
	Net earnings (loss)	32	1,020	1,052	1,594	(2,881)	(1,287)
	Adjusted net earnings (loss) ⁽⁵⁾	32	1,020	1,052	1,594	(50)	1,544
Stability	Debt to total capitalization ⁽²⁾			26.4%			18.4%
	Unutilized line of credit			28,647			55,570
	Cash on hand			2,827			11,276
	Payout ratio			54.5%			107.1%
	Dividends declared per share			0.300			0.300
Cost containment	Wages and benefits	43.3%	36.3%	41.6%	41.7%	37.4%	41.3%
	Utilities	6.6%	7.9%	6.9%	5.7%	7.7%	5.9%
	Expenses included in EBITDA	89.3%	87.6%	88.9%	83.7%	153.0%	90.6%

(\$ Thousands, except percentages and per share amounts)

Category	Indicator	Canadian Division YTD 2018	UK Division YTD 2018	YTD 2018	Canadian Division YTD 2017	UK Division ⁽³⁾ YTD 2017	YTD 2017
Growth	EBITDA ⁽¹⁾	-19.3%	427.4%	23.3%	-5.8%		-14.7%
	Adjusted EBITDA ⁽⁴⁾	-19.3%	2442.1%	10.3%	-5.8%		-4.7%
	Revenue	8.5%	1161.5%	40.4%	4.2%		7.2%
	Distributable cash flow			23.5%			-9.2%
Profitability	EBITDA ⁽¹⁾	21,370	8,211	29,581	26,493	(2,508)	23,985
	EBITDA margin	11.9%	13.8%	12.3%	16.0%	-53.0%	14.1%
	Adjusted EBITDA ⁽⁴⁾	21,370	8,211	29,581	26,493	323	26,816
	Adjusted EBITDA margin ⁽⁴⁾	11.9%	13.8%	12.3%	16.0%	6.8%	15.7%
	Net earnings (loss)	2,701	3,468	6,169	8,599	(2,881)	5,718
	Adjusted net earnings (loss) ⁽⁵⁾	2,701	3,468	6,169	8,599	(50)	8,549
Stability	Debt to total capitalization ⁽²⁾			26.4%			18.4%
	Unutilized line of credit			28,647			55,570
	Cash on hand			2,827			11,276
	Payout ratio			51.1%			55.5%
	Dividends declared per share			1.200			1.200
Cost containment	Wages and benefits	43.7%	36.0%	41.7%	41.4%	37.4%	41.2%
	Utilities	5.9%	7.2%	6.3%	6.0%	7.7%	6.1%
	Expenses included in EBITDA	88.1%	86.2%	87.7%	84.0%	153.0%	85.9%

¹ EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, finance expense (recovery) and depreciation and amortization). See Terminology.

² Debt to total capitalization is defined as total debt divided by total capital. See Terminology.

³ Prior to the acquisition of Fishers on November 27, 2017, K-Bro was reporting and operating as a single Canadian division.

⁴ Adjusted EBITDA is defined as EBITDA (defined above) with the exclusion of certain material items that are unusual in nature, infrequently occurring or not considered part of our core operations. See Terminology for a complete description of the adjusted items.

⁵ Adjusted net earnings is defined as net earnings with the exclusion of certain material items that are unusual in nature, infrequently occurring or not considered part of our core operations. See Terminology for a complete description of the adjusted items.



QUARTERLY FINANCIAL INFORMATION - CONSOLIDATED

Historically, the Corporation's financial and operating results, particularly as it relates to Fishers, are stronger in the second and third quarters as a result of seasonality and the associated higher hospitality volumes. Other fluctuations in net income from quarter-to-quarter can also be attributed

to hiring and labour cost trends, timing of linen purchases, utility costs, timing of repairs and maintenance expenditures, business development, capital spending patterns and changes in corporate tax rates and income tax expenses.

The following table provides certain selected consolidated financial and operating data prepared by K-Bro management for the preceding eight quarters:

Quarterly Financial Information - Consolidated

(\$ Thousands, except percentages and per share amounts)

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	34,469	33,378	33,868	33,601	31,936	29,021	28,499	28,053
Hospitality revenue	24,971	30,594	26,870	21,783	15,573	14,577	11,995	10,905
Total revenue⁽⁴⁾	59,440	63,972	60,738	55,384	47,509	43,598	40,494	38,958
Expenses included in EBITDA	52,821	55,662	52,286	49,184	43,056	35,487	33,837	34,194
EBITDA ⁽¹⁾	6,619	8,310	8,452	6,200	4,453	8,111	6,657	4,764
EBITDA as a % of revenue (EBITDA margin)	11.1%	13.0%	13.9%	11.2%	9.4%	18.6%	16.4%	12.2%
Adjusted EBITDA ⁽²⁾	6,619	8,310	8,452	6,200	7,284	8,111	6,657	4,764
Adjusted EBITDA as a % of revenue (Adjusted EBITDA margin)	11.1%	13.0%	13.9%	11.2%	15.3%	18.6%	16.4%	12.2%
Depreciation and amortization	5,252	5,069	4,271	4,283	4,105	3,213	3,246	2,809
Finance expense (recovery)	866	857	716	876	786	101	61	185
Earnings before income taxes	501	2,384	3,465	1,041	(438)	4,797	3,350	1,770
Income tax expense	(551)	498	881	394	849	1,379	1,013	520
Net earnings (loss)	1,052	1,886	2,584	647	(1,287)	3,418	2,337	1,250
Net earnings (loss) as a % of revenue	1.8%	2.9%	4.3%	1.2%	-2.7%	7.8%	5.8%	3.2%
Basic earnings (loss) per share	0.100	0.180	0.247	0.062	(0.132)	0.359	0.257	0.157
Diluted earnings (loss) per share	0.100	0.179	0.246	0.062	(0.132)	0.358	0.256	0.156
Adjusted net earnings ⁽³⁾	1,052	1,886	2,584	647	1,544	3,418	2,337	1,250
Basic adjusted earnings (loss) per share ⁽³⁾	0.100	0.180	0.247	0.062	0.159	0.359	0.257	0.157
Diluted adjusted earnings (loss) per share ⁽³⁾	0.100	0.179	0.246	0.062	0.158	0.358	0.256	0.156
Total assets	322,229	316,968	317,051	312,193	295,213	199,452	195,957	180,583
Total long-term financial liabilities	87,831	84,436	86,675	72,189	57,594	9,205	8,407	41,134
Funds provided by (used in) operations	7,799	9,759	(4,629)	4,625	6,395	3,788	2,297	6,300
Long-term debt	70,203	67,045	70,505	56,356	42,780	-	-	32,363
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300

¹ EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, finance expense (recovery) and depreciation and amortization). See Terminology.

² Adjusted EBITDA is defined as EBITDA (defined above) with the exclusion of certain material items that are unusual in nature, infrequently occurring or not considered part of our core operations. See Terminology for a complete description of the adjusted items.

³ Adjusted net earnings is defined as net earnings with the exclusion of certain material items that are unusual in nature, infrequently occurring or not considered part of our core operations. See Terminology for a complete description of the adjusted items.

⁴ For the UK Division, during Q3 2018, management revised the classification between healthcare revenue and hospitality revenue, and as a result the comparative figures for Q2 2018, Q1 2018, and Q4 2017 have been restated to account for the revised classifications.



QUARTERLY FINANCIAL INFORMATION - CANADIAN DIVISION

The following table provides certain selected consolidated financial and operating data prepared by K-Bro management for the preceding eight quarters:

Quarterly Financial Information - Canadian Division

(\$ Thousands, except percentages
and per share amounts)

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	32,912	31,818	32,193	32,010	31,375	29,021	28,499	28,053
Hospitality revenue	12,155	15,054	12,465	11,282	11,406	14,577	11,995	10,905
Total revenue	45,067	46,872	44,658	43,292	42,781	43,598	40,494	38,958
Expenses included in EBITDA	40,229	41,758	38,758	37,774	35,820	35,487	33,837	34,194
EBITDA ⁽¹⁾	4,838	5,114	5,900	5,518	6,961	8,111	6,657	4,764
EBITDA as a % of revenue (EBITDA margin)	10.7%	10.9%	13.2%	12.7%	16.3%	18.6%	16.4%	12.2%
Adjusted EBITDA ⁽²⁾	4,838	5,114	5,900	5,518	6,961	8,111	6,657	4,764
Adjusted EBITDA as a % of revenue (Adjusted EBITDA margin)	10.7%	10.9%	13.2%	12.7%	16.3%	18.6%	16.4%	12.2%
Net earnings	32	200	1,421	1,048	1,594	3,418	2,337	1,250
Net earnings as a % of revenue	0.1%	0.4%	3.2%	2.4%	3.7%	7.8%	5.8%	3.2%
Basic earnings per share	0.003	0.019	0.136	0.100	0.164	0.359	0.257	0.157
Diluted earnings per share	0.003	0.019	0.135	0.100	0.163	0.358	0.256	0.156
Adjusted net earnings ⁽³⁾	32	200	1,421	1,048	1,594	3,418	2,337	1,250
Basic adjusted earnings per share ⁽³⁾	0.003	0.019	0.136	0.100	0.164	0.359	0.257	0.157
Diluted adjusted earnings per share ⁽³⁾	0.003	0.019	0.135	0.100	0.163	0.358	0.256	0.156

¹ EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, finance expense (recovery) and depreciation and amortization). See Terminology.

² Adjusted EBITDA is defined as EBITDA (defined above) with the exclusion of certain material items that are unusual in nature, infrequently occurring or not considered part of our core operations. See Terminology for a complete description of the adjusted items.

³ Adjusted net earnings is defined as net earnings with the exclusion of certain material items that are unusual in nature, infrequently occurring or not considered part of our core operations. See Terminology for a complete description of the adjusted items.

QUARTERLY FINANCIAL INFORMATION - UK DIVISION

The following table provides certain selected consolidated financial and operating data prepared by K-Bro management for the preceding eight quarters:

Quarterly Financial Information - UK Division (in reporting currency Canadian \$)

(\$ Thousands, except percentages
and per share amounts)

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	1,557	1,560	1,675	1,591	561	-	-	-
Hospitality revenue	12,816	15,540	14,405	10,501	4,167	-	-	-
Total revenue⁽⁴⁾	14,373	17,100	16,080	12,092	4,728	-	-	-
Expenses included in EBITDA	12,592	13,904	13,528	11,410	7,236	-	-	-
EBITDA ⁽¹⁾	1,781	3,196	2,552	682	(2,508)	-	-	-
EBITDA as a % of revenue (EBITDA margin)	12.4%	18.6%	15.9%	5.6%	-53.1%	-	-	-
Adjusted EBITDA ⁽²⁾	1,781	3,196	2,552	682	323	-	-	-
Adjusted EBITDA as a % of revenue (Adjusted EBITDA margin)	12.4%	18.6%	15.9%	5.6%	6.8%	-	-	-
Net earnings (loss)	1,020	1,686	1,163	(401)	(2,881)	-	-	-
Net earnings (loss) as a % of revenue	7.1%	9.9%	7.2%	-3.3%	-60.9%	-	-	-
Basic earnings (loss) per share	0.097	0.161	0.111	(0.038)	(0.296)	-	-	-
Diluted earnings (loss) per share	0.097	0.160	0.111	(0.038)	(0.295)	-	-	-
Adjusted net earnings (loss) ⁽³⁾	1,020	1,686	1,163	(401)	(50)	-	-	-
Basic adjusted earnings (loss) per share ⁽³⁾	0.097	0.161	0.111	(0.038)	(0.005)	-	-	-
Diluted adjusted earnings (loss) per share ⁽³⁾	0.097	0.160	0.111	(0.038)	(0.005)	-	-	-



Quarterly Financial Information - UK Division
(in reporting currency Sterling £)

(\$ Thousands, except percentages
and per share amounts)

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	917	916	952	903	328	-	-	-
Hospitality revenue	7,550	9,077	8,201	5,963	2,433	-	-	-
Total revenue⁽⁴⁾	8,467	9,993	9,153	6,866	2,761	-	-	-
Expenses included in EBITDA	7,413	8,139	7,700	6,480	4,227	-	-	-
EBITDA ⁽¹⁾	1,054	1,854	1,453	386	(1,466)	-	-	-
EBITDA as a % of revenue (EBITDA margin)	12.4%	18.6%	15.9%	5.6%	-53.1%			
Adjusted EBITDA ⁽²⁾	1,054	1,854	1,453	386	188	-	-	-
Adjusted EBITDA as a % of revenue (Adjusted EBITDA margin)	12.4%	18.6%	15.9%	5.6%	6.8%			
Net earnings (loss)	600	972	662	(229)	(1,670)	-	-	-
Net earnings (loss) as a % of revenue	7.1%	9.7%	7.2%	-3.3%	-60.5%			
Basic earnings (loss) per share	0.057	0.093	0.063	(0.022)	(0.172)	-	-	-
Diluted earnings (loss) per share	0.057	0.092	0.063	(0.022)	(0.171)	-	-	-
Adjusted net earnings (loss) ⁽³⁾	600	972	660	(229)	(16)	-	-	-
Basic adjusted earnings (loss) per share ⁽³⁾	0.057	0.093	0.063	(0.022)	(0.002)	-	-	-
Diluted adjusted earnings (loss) per share ⁽³⁾	0.057	0.092	0.063	(0.022)	(0.002)	-	-	-

¹ EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, finance expense (recovery) and depreciation and amortization). See Terminology.

² Adjusted EBITDA is defined as EBITDA (defined above) with the exclusion of certain material items that are unusual in nature, infrequently occurring or not considered part of our core operations. See Terminology for a complete description of the adjusted items.

³ Adjusted net loss is defined as net earnings with the exclusion of certain material items that are unusual in nature, infrequently occurring or not considered part of our core operations. See Terminology for a complete description of the adjusted items.

⁴ For the UK Division, during Q3 2018, management revised the classification between healthcare revenue and hospitality revenue, and as a result the comparative figures for Q2 2018, Q1 2018, and Q4 2017 have been restated to account for the revised classifications.

⁵ For the UK Division, Q1 2018 includes \$170k (98k GBP) in transaction costs related to the acquisition of Fishers.

REVENUE, EARNINGS & EBITDA

For the year ended December 31, 2018, K-Bro's consolidated revenue increased by 40.4% to \$239.5 million from \$170.6 million in the comparative period. This increase was due to the acquisition of Fishers, acquisition of Linitek, additional awarded healthcare volume from the Vancouver lower mainland contract signed in 2016, Trillium Health Partners volume, William Osler Health System volume, organic growth at existing customers, and new customers secured in existing markets. In 2018, approximately 56.5% of K-Bro's consolidated revenue was generated from healthcare institutions, which is lower compared to 68.9% in 2017, primarily related to Fishers' volume being concentrated within the hospitality sector.

Consolidated EBITDA increased in the year to \$29.6 million from \$24.0 million in 2017, which is an increase of 23.3%. The consolidated EBITDA margin decreased to 12.3% in 2018 compared to 14.1% in 2017. The change in EBITDA

and margin is primarily associated with one-time acquisition costs related to Fishers in 2017, the efficiencies gained as a result of the capital expenditures made in Toronto, volume related to the acquisition of Fishers, and acquisition of Linitek, offset by Vancouver transition costs, tight labour markets in British Columbia and Quebec, and rising minimum wage rates the timing of which is not offset by price increases. Management estimates the one-time costs incurred related to the Vancouver transition for the year were approximately \$6.7 million. After adjusting for these one-time costs, the Canadian EBITDA margin would have been 15.6% as compared to 12.3% on an unadjusted basis and the consolidated EBITDA margin would have been 15.2% as compared to 12.3% on an unadjusted basis.

Net earnings increased by \$0.5 million or 7.9% from \$5.7 million in 2017 to \$6.2 million in 2018, and net earnings as a percentage of revenue decreased by 0.8% to 2.6% in 2018 from 3.4% in 2017. This increase in net earnings is primarily due to the flow through items in EBITDA discussed above,

higher finance costs related with the revolving credit facility, higher depreciation of property, plant and equipment associated with new plant builds and the acquisition of Fishers, offset by a lower income tax expense.

OPERATING EXPENSES

Wages and benefits increased to \$100.0 million and to 41.7% as a percentage of revenues compared to \$70.4 million and 41.2% in 2017, this includes \$21.5 million related to our UK Division. The remaining increase in wages and benefits in the period is due to the incremental labour required to process higher volumes, one-time costs related to the Vancouver transition, higher labour costs from incremental increases in the wage rate, escalating minimum wage rates, and tight labour markets in British Columbia and Quebec.

Linen expenses increased to \$26.7 million in 2018 from \$19.0 million in 2017, and remained constant as a percentage of revenue at 11.1%, this includes \$6.8 million related to our UK Division. The remaining increase is a result of increased healthcare volumes from new Canadian customers and the associated linen costs.

Utility costs increased to \$15.0 million compared to \$10.4 million in 2017 and increased as a percentage of revenue to 6.3% in 2018 from 6.1% in 2017, this includes \$4.3 million related to our UK Division. The remaining variance is primarily due to incremental volume processed, transition of our Vancouver facilities, higher commodity costs in British Columbia as a result of a temporary natural gas supply shortage, and higher carbon levy rates in Alberta, offset by improved efficiencies in the new Toronto facility.

Delivery costs increased to \$30.7 million and to 12.8% as a percentage of revenues compared to \$18.3 million and 10.7% in 2017, this includes \$10.9 million related to our UK Division. The remaining increase is a result of increased business activity, price increases from renewals of out-sourced freight contracts, transition of our Vancouver facilities, higher carbon levy rates in Alberta, and higher cost of diesel and external freight charges tied to diesel price.

Occupancy costs increased to \$9.9 million and to 4.1% as a percentage of revenue, compared to \$6.5 million and 3.8% in 2017, this includes \$2.6 million related to our UK Division. The remaining increase is a result of 2018 being reflective of a full year of the occupancy costs related to the new Toronto facility and additional occupancy costs in Vancouver related to our plant build out strategy.

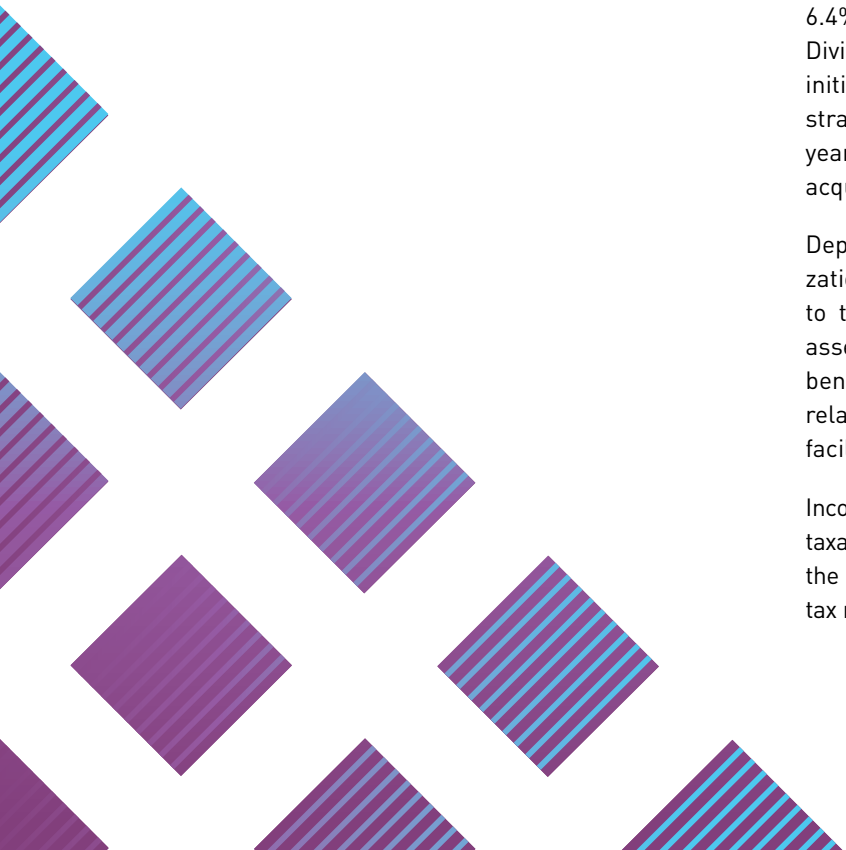
Materials and supplies increased to \$8.5 million and to 3.5% as a percentage of revenue, compared to \$5.5 million and 3.2% in 2017, this includes \$2.6 million related to our UK Division. Materials and supplies as a percent of revenue increased primarily related to higher costs due to the transition of our Vancouver facilities and certain one-time set-up costs that were required.

Repairs and maintenance increased to \$8.2 million and to 3.4% as a percentage of revenues, compared to \$5.6 million and 3.3% in 2017, this includes \$1.3 million related to our UK Division. Changes in repairs and maintenance are primarily due to the timing of scheduled maintenance activities and one-time costs related to the transition of our Vancouver facilities.

Corporate costs increased to \$11.0 million and to 4.6% as a percentage of revenues compared to \$10.9 million and 6.4% in 2017, this includes \$1.4 million related to our UK Division. Changes in corporate costs are primarily related to initiatives to support the Corporation's growth and business strategies across the plants. Corporate costs in the prior year include \$2.8 million related to transaction costs for the acquisition of Fishers.

Depreciation of property, plant and equipment and amortization of intangible assets represents the expense related to the appropriate matching of certain K-Bro long-term assets to the estimated useful life and period of economic benefit of those assets. The increase during the quarter is related to the completion of the new Toronto and Vancouver facilities and the acquisition of Fishers.

Income tax includes current and future income taxes based on taxable income and the temporary timing differences between the tax and accounting bases of assets and liabilities. Income tax reflects the provision on the earnings of the Corporation.



LIQUIDITY & CAPITAL RESOURCES

In 2018, cash generated by operating activities was \$24.8 million with a debt to total capitalization of 26.4%. Management believes the unutilized balance of \$28.6 million with respect to its revolving credit facility is sufficient for the Corporation's operations in the foreseeable future. However, management intends to continually assess its opportunities to maintain a conservative amount of leverage and balance sheet flexibility in the short and long-term basis in order to ensure that sufficient capital is available for future growth needs.

During 2018, cash generated by financing activities was \$14.8 million compared to \$93.8 million in 2017. Financing activities in 2018 consisted of net proceeds from the revolving credit facility, offset by dividends paid to shareholders, compared to 2017 which included \$87.7 million net proceeds from issuance of Common Shares.

During 2018, cash used in investing activities was \$40.9 million compared to \$101.3 million in 2017. Investing activities related primarily to the purchase of plant equipment for the new Vancouver plant, the purchase of Linitek, and the purchase of equipment in existing plants to facilitate strategic growth.

CONTRACTUAL OBLIGATIONS

Payments due under contractual obligations for the next five years and thereafter are as follows:

(\$ Thousands)	Payments Due by Period				
	Total	< 1 Year	1–3 Years	4–5 Years	> 5 Year
Long-term debt	70,203	-	70,203	-	-
Operating lease commitments	61,188	9,181	13,685	10,379	27,943
Utility commitments	8,422	5,860	2,562	-	-
Linen purchase obligations	9,314	9,314	-	-	-
Property, plant and equipment commitments	1,622	1,622	-	-	-

The operating lease obligations are secured by automotive equipment and plants, and are more fully described in the Corporation's audited annual consolidated financial statements. The source of funds for these commitments will be from operating cash flow and, if necessary, the undrawn portion of the revolving credit facility.

FINANCIAL POSITION

(\$ Thousands, except percentages)	2018	2017
Cash and cash equivalents	(2,827)	(11,276)
Long-term debt	70,203	42,780
Shareholders' equity	198,660	201,587
Total capitalization	266,036	233,091
Debt to total capitalization (see <i>Terminology</i> for definition)	26.4%	18.4%

For the year ended December 31, 2018, the Corporation had a debt to total capitalization of 26.4%, unused revolving credit facility of \$28.6 million and has not incurred any events of default under the terms of its credit facility agreement.

As at December 31, 2018, the Corporation had net working capital of \$34.8 million compared to its working capital position of \$32.0 million at December 31, 2017. The increase in working capital is primarily attributable to timing differences related to the cash settlement of new plant equipment, timing of income tax recovery, deposits related to the acquisition of equipment related across the plants, and timing of cash receipts from customers.

Management believes that K-Bro has the capital resources and liquidity necessary to meet its commitments, support its operations and finance its growth strategies. In addition to K-Bro's ability to generate cash from operations and its revolving credit facility, K-Bro believes it is also able to issue additional shares or increase its borrowing capacity, if necessary, to provide for capital spending and sustain its property, plant and equipment.

DIVIDENDS

Fiscal Period	Payment Date	# of Shares Outstanding	Amount Per Share	2018 Total Amount (1)(3)(5)(7)	Amount Per Share	2017 Total (2)(4)(6)(8)
January	February 15	10,508,502	0.10000	1,051	0.10000	802
February	March 15	10,508,502	0.10000	1,051	0.10000	802
March	April 13	10,508,502	0.10000	1,051	0.10000	802
Q1			0.30000	3,153	0.30000	2,407
April	May 15	10,508,502	0.10000	1,051	0.10000	954
May	June 15	10,559,936	0.10000	1,056	0.10000	958
June	July 13	10,559,936	0.10000	1,056	0.10000	958
Q2			0.30000	3,163	0.30000	2,871
July	August 15	10,559,936	0.10000	1,056	0.10000	958
August	September 14	10,559,936	0.10000	1,056	0.10000	958
September	October 15	10,559,936	0.10000	1,056	0.10000	958
Q3			0.30000	3,168	0.30000	2,875
October	November 15	10,559,936	0.10000	1,056	0.10000	958
November	December 14	10,559,936	0.10000	1,056	0.10000	958
December	January 15	10,559,936	0.10000	1,056	0.10000	1,051
Q4			0.30000	3,168	0.30000	2,968
YTD			1.20000	12,652	1.20000	11,121

1 The total amount of dividends declared was \$0.10000 per share for a total of \$1,050,850 per month for January - March 2018; when rounded in thousands, \$3,153 of dividends were declared for the quarterly period.

2 The total amount of dividends declared was \$0.10000 per share for a total of \$802,348 per month for January - March 2017; when rounded in thousands, \$2,407 of dividends were declared for the quarterly period.

3 The total amount of dividends declared was \$0.10000 per share for a total of \$1,050,850 per month for April - May 2018, and \$1,055,994 for June 2018. When rounded in thousands, \$3,163 of dividends were declared for the quarterly period.

4 The total amount of dividends declared was \$0.10000 per share for a total of \$954,148 for April 2017, \$958,390 for May 2017, and \$958,390 for June 2017. When rounded in thousands, \$2,871 of dividends were declared for the quarterly period.

5 The total amount of dividends declared was \$0.10000 per share for a total of \$1,055,994 per month for July - September 2018; when rounded in thousands, \$3,168 of dividends were declared in Q3.

6 The total amount of dividends declared was \$0.10000 per share for a total of \$958,390 per month for July - September 2017; when rounded in thousands, \$2,875 of dividends were declared in Q3.

7 The total amount of dividends declared was \$0.10000 per share for a total of \$1,055,994 per month for October - December 2018; when rounded in thousands, \$3,168 of dividends were declared in Q4.

8 The total amount of dividends declared was \$0.10000 per share for a total of \$958,390 for October 2017, \$958,390 for November 2017, and \$1,050,850 for December 2017; when rounded in thousands, \$2,968 of dividends were declared in Q4.

For the year ended December 31, 2018, the Corporation declared a \$1.200 per Common Share dividend compared to \$2.359 per Common Share of Distributable Cash Flow (see *Terminology*). The actual payout ratio was 51.1%

The Corporation's policy is to pay dividends to Shareholders from its available distributable cash flow while considering requirements for capital expenditures, working capital, growth capital and other reserves considered advisable

by the Directors of the Corporation. All such dividends are discretionary. Dividends are declared payable each month in equal amounts to Shareholders on the last business day of each month and are paid by the 15th of the following month.

The Corporation designates all dividends paid or deemed to be paid as Eligible Dividends for purposes of subsection 89(14) of the Income Tax Act (Canada), and similar provincial and territorial legislation, unless indicated otherwise.

DISTRIBUTABLE CASH FLOW

(see Terminology) (all amounts in this section in \$000's except per share amounts and percentages)

The Corporation's source of cash for dividends is distributable cash flow provided by operating activities. Distributable cash flow, reconciled to cash provided by operating activities as calculated under IFRS, is presented as follows:

(\$ Thousands, except percentages and per share amounts)	Q4	Q3	Q2	2018 Q1	Q4	Q3	Q2	2017 Q1
Cash provided by (used in) operating activities	7,799	9,759	(4,629)	4,625	6,395	3,788	2,297	6,300
Deduct (add):								
Net changes in non-cash working capital items ⁽¹⁾	1,082	1,176	(12,167)	(1,471)	2,942	(3,917)	(4,161)	1,214
Share-based compensation expense	380	403	625	409	333	276	494	405
Maintenance capital expenditures ⁽²⁾	526	908	430	488	349	192	427	179
Distributable cash flow	5,811	7,272	6,483	5,199	2,771	7,237	5,537	4,502
Dividends declared	3,168	3,168	3,163	3,153	2,968	2,875	2,871	2,407
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300
Payout ratio ⁽³⁾	54.5%	43.6%	48.8%	60.6%	107.1%	39.7%	51.8%	53.5%
Weighted average shares outstanding during the period, basic	10,479	10,470	10,462	10,454	9,718	9,511	9,104	7,979
Weighted average shares outstanding during the period, diluted	10,525	10,540	10,509	10,491	9,755	9,548	9,133	7,999
Trailing-twelve months ("TTM")								
Distributable cash flow	24,765	21,725	21,690	20,744	20,047	23,051	21,667	21,298
Dividends	12,651	12,452	12,159	11,867	11,121	10,560	10,092	9,624
Payout ratio ⁽³⁾	51.1%	57.3%	56.1%	57.2%	55.5%	45.8%	46.6%	45.2%

¹ Net changes in non-cash working capital is excluded from the calculation as management believes it would introduce significant cash flow variability and affect underlying cash flow from operating activities. Significant variability can be caused by such things as the timing of receipts (which individually are large because of the nature of K-Bro's customer base and timing may vary due to the timing of customer approval, vacations of customer personnel, etc.) and the timing of disbursements (such as the payment of large volume rebates done once annually). As well, large increases in working capital are generally required when contracts with new customers are signed as linen is purchased and accounts receivable increase. Management feels that this amount should be excluded from the distributable cash flow calculation.

² Maintenance capital expenditures include costs required to maintain or replace assets which do not have a discrete return on investment.

³ The ratio of dividends paid compared to distributable cash flow is periodically reviewed by the Board of Directors to take into account the current and prospective performance of the business and other items considered to be prudent. Payout ratio is calculated on the dividends declared divided by the distributable cash flow.

OUTSTANDING SHARES

As at December 31, 2018, the Corporation had 10,559,936 Common Shares outstanding. Basic and diluted weighted average number of Common Shares outstanding for 2018 were 10,466,458 and 10,500,014, respectively (9,083,693 and 9,114,874, respectively, for the comparative 2017 periods).

In accordance with the Corporation's long term incentive plan (the "LTI Plan") and in conjunction with the performance of the Corporation in the 2017 fiscal year, on April 16, 2018 the Compensation, Nominating and Corporate Governance Committee of the Board of Directors approved LTI compensation of \$1.6 million (2017 – \$1.7 million) to be paid as Common Shares issued from treasury. As at December 31, 2018, the value of the Common Shares held in trust by the LTI trustee was \$3.0 million (December 31, 2017 – \$2.3 million) which was comprised of 63,346 in unvested Common Shares (December 31, 2017 – 54,880) with a nil aggregate cost (December 31, 2017 – \$nil).

As at March 13, 2019 there were 10,559,936 Common Shares issued and outstanding including 63,346 Common Shares issued but held as unvested treasury shares.

RELATED PARTY TRANSACTIONS

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by Mr. Matthew Hills, a Director of the Corporation. The amounts charged are recorded at their exchange amounts and are on arm's length terms. For the year ended December 31, 2018, the Corporation incurred fees totaling \$138,000 (2017 – \$138,000).

CRITICAL ACCOUNTING ESTIMATES

The Corporation's summary of significant accounting policies are contained in Note 2 to the audited Consolidated Financial Statements.

The Corporation's Financial Statements include estimates and assumptions made by management in respect of operating results, financial conditions, contingencies, commitments, and related disclosures. Actual results may vary from these estimates. The following are, in the opinion

of management, the Corporation's most critical accounting estimates, being those that involve the most difficult, subjective and complex judgments, and/or requiring estimates that are inherently uncertain and which may change in subsequent reporting periods.

K-Bro has continuously refined and documented its management and internal reporting systems to ensure that accurate, timely, internal and external information is gathered and disseminated. Management also regularly evaluates these estimates and assumptions which are based on past experience and other factors that are deemed reasonable under the circumstances.

K-Bro has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Furthermore, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates.

K-Bro's leadership team's mandate includes ongoing development of procedures, standards and systems to allow K-Bro staff to make the best decisions possible and ensuring those decisions are in compliance with the Corporation's policies.

Preparation of the Corporation's consolidated financial statements requires management to make estimates and assumptions that affect:

- volume rebates;
- linen in service;
- intangible assets;
- goodwill;
- income taxes;
- provisions; and,
- allowance for doubtful accounts;
- segment information; and,
- business combinations.

The following discusses the most significant accounting judgments and estimates in the Corporation's Consolidated Financial Statements.

Impairment of Goodwill and Non-Financial Assets

The Corporation reviews goodwill at least annually and other non-financial assets when there is any indication that the asset might be impaired. The Corporation applies judgment in assessing the likelihood of renewal of significant contracts included in the intangible assets described

in Note 9. The Corporation has estimated the fair value of CGUs to which goodwill is allocated based on value in use using discounted cash flow models that required assumptions about future cash flows, margins, and discount rates and the earnings multiple approach that utilizes Board approved budgets and implied multiples. The implied multiple is calculated by utilizing multiples of comparable public companies. Judgment is required in determining the appropriate comparable companies. Refer to Note 10 for more details amount methods and assumptions used in estimated net recoverable.

Recognition of Rebate Liabilities

In applying its accounting policy for volume rebates, the Corporation must determine whether the processing volume thresholds will be achieved. The most difficult and subjective area of judgment is whether a contract will generate satisfactory volume to achieve minimum levels. Management considers all appropriate facts and circumstances in making this assessment including historical experience, current volumetric run-rates, and expected future events.

Linen in Service

The estimated service lives of linen in service are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits of use.

Segment Identification

When determining its reportable segments, the Corporation considers qualitative factors, such as operations that offer distinct products and services and are considered to be significant by the Chief Operating Decision Maker, identified as the Chief Executive Officer. Aggregation occurs when the operating segments have similar economic characteristics, and have similar (a) products and services; (b) geographic proximity; (c) type or class of customer for their products and services; (d) methods used to distribute their products or provide their services; and (e) nature of the regulatory environment, if applicable.

Provisions

The Corporation is required to restore the leased premises of its leased plants. A provision has been recognized for the present value of the estimated expenditure required to remove any leasehold improvements and installed equipment. Refer to Note 11 in the Corporation's Consolidated Financial Statements for more details about estimation and judgments for this provision.

Business Combinations

In a business combination the Corporation acquires assets and assumes liabilities of an acquired business. Judgement is required to determine the fair values assigned to the tangible and intangible assets acquired and liabilities assumed in the acquisition. Determining fair values involves a variety of assumptions, including revenue growth rates, expected operating income and discount rates. During a measurement period, not to exceed one year, adjustments of the initial estimates may be required to finalize the fair value of assets acquired and liabilities assumed.

Management regularly evaluates these estimates and judgments. 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

TERMINOLOGY

EBITDA

K-Bro reports EBITDA (Earnings before interest, taxes, depreciation and amortization) as a key measure used by management to evaluate performance. EBITDA is utilized to measure compliance with debt covenants and to make decisions related to dividends to Shareholders. We believe EBITDA assists investors to assess our performance on a consistent basis as it is an indication of our capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible and intangible capital assets, which vary according to their vintage, technological currency and management's estimate of their useful life. Accordingly, EBITDA comprises revenues less operating costs before financing costs, capital asset and intangible asset amortization, and income taxes.

EBITDA is a sub-total presented within the statement of earnings in accordance with the amendments made to IAS 1 which became effective January 1, 2016. EBITDA is not considered an alternative to net earnings in measuring K-Bro's performance. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, capital expenditures, debt changes and other sources and uses of cash, which are disclosed in the consolidated statements of cash flows.

(\$ Thousands)	3 Months Ended December 31,		Years Ended December 31,	
	2018	2017	2018	2017
Net earnings (loss)	1,052	(1,287)	6,169	5,718
Add:				
Income tax expense (recovery)	(551)	849	1,222	3,761
Finance expense	866	786	3,315	1,133
Depreciation of property, plant and equipment	4,484	3,543	15,871	11,606
Amortization of intangible assets	768	562	3,004	1,767
EBITDA	6,619	4,453	29,581	23,985

NON-GAAP MEASURES

Adjusted EBITDA

Adjusted EBITDA is a measure which has been reported in order to assist in the comparison of historical EBITDA to current results. Adjusted EBITDA is defined as EBITDA (defined above) with the exclusion of certain material items that are unusual in nature, infrequently occurring or not considered part of our core operations.

The calculation of Adjusted EBITDA normalizes the impact of the transaction costs related to the acquisition of Fishers in 2017, and the related impact on EBITDA (as defined above). During the fourth quarter of 2017, K-Bro incurred \$2.8 million in transaction costs directly related to the acquisition of Fishers, which is not expected to occur in the normal course of operations. The normalization of this expense from the calculation of EBITDA is considered by Management to be a more accurate representation of continuing operations. One-time costs related to the Vancouver plant transition have not been adjusted for in the table below.

3 Months Ended December 31, (\$ Thousands)	Canadian Division 2018	UK Division 2018	2018	Canadian Division 2017	UK Division 2017	2017
EBITDA	4,838	1,781	6,619	6,961	(2,508)	4,453
Add:						
Transaction costs incurred in the acquisition of Fishers	-	-	-	-	2,831	2,831
Adjusted EBITDA	4,838	1,781	6,619	6,961	323	7,284

Years Ended December 31, (\$ Thousands)	Canadian Division 2018	UK Division 2018	2018	Canadian Division 2017	UK Division 2017	2017
EBITDA	21,370	8,211	29,581	26,493	(2,508)	23,985
Add:						
Transaction costs incurred in the acquisition of Fishers	-	-	-	-	2,831	2,831
Adjusted EBITDA	21,370	8,211	29,581	26,493	323	26,816

Adjusted Net Earnings and Adjusted Net Earnings per Share

Adjusted net earnings and adjusted net earnings per share are measures which have been reported in order to assist in the comparison of historical net earnings to current results. Adjusted net earnings is defined as net earnings with the exclusion of certain material items that are unusual in nature, infrequently occurring or not considered part of our core operations.

The calculation of adjusted net earnings normalizes the impact of the transaction costs related to the acquisition of Fishers, and the related impact on net earnings and net earnings per share. The normalization of this net expense in the calculation of adjusted net earnings and adjusted net earnings per share is considered by management to be a more accurate representation of the net earnings from core operations.

3 Months Ended December 31, (\$ Thousands)	Canadian Division 2018	UK Division 2018	2018	Canadian Division 2017	UK Division 2017	2017
Net earnings (loss)	32	1,020	1,052	1,594	(2,881)	(1,287)
Add (net of corporate income taxes):						
Transaction costs incurred in the acquisition of Fishers	-	-	-	-	2,831	2,831
Adjusted net earnings (loss)	32	1,020	1,052	1,594	(50)	1,544
Weighted average number of shares outstanding:						
Basic	10,479,415	10,479,415	10,479,415	9,717,890	9,717,890	9,717,890
Diluted	10,525,450	10,525,450	10,525,450	9,755,183	9,755,183	9,755,183
Adjusted net earnings (loss) per share:						
Basic	0.003	0.097	0.100	0.164	(0.005)	0.159
Diluted	0.003	0.097	0.100	0.163	(0.005)	0.158

Years Ended December 31, (\$ Thousands)	Canadian Division 2018	UK Division 2018	2018	Canadian Division 2017	UK Division 2017	2017
Net earnings (loss)	2,701	3,468	6,169	8,599	(2,881)	5,718
Add (net of corporate income taxes):						
Transaction costs incurred in the acquisition of Fishers	-	-	-	-	2,831	2,831
Adjusted net earnings (loss)	2,701	3,468	6,169	8,599	(50)	8,549
Weighted average number of shares outstanding:						
Basic	10,466,458	10,466,458	10,466,458	9,083,693	9,083,693	9,083,693
Diluted	10,500,014	10,500,014	10,500,014	9,114,874	9,114,874	9,114,874
Adjusted net earnings (loss) per share:						
Basic	0.258	0.331	0.589	0.947	(0.006)	0.941
Diluted	0.257	0.330	0.588	0.943	(0.005)	0.938

Distributable Cash Flow

Distributable cash flow is a measure used by management to evaluate its performance. While the closest IFRS measure is cash provided by operating activities, distributable cash flow is considered relevant because it provides an indication of how much cash generated by operations is available after capital expenditures. It shall be noted that although we consider this measure to be distributable cash flow, financial and non-financial covenants in our credit facilities and dealer agreements may restrict cash from being available for dividends, re-investment in the Corporation, potential acquisitions, or other purposes. Investors should be cautioned that distributable cash flow may not actually be available for growth or distribution from the Corporation. Management refers to “Distributable cash flow” as to cash provided by (used in) operating activities with the addition of net changes in non-cash working capital items, less share-based compensation, and maintenance capital expenditures.

Payout Ratio

Payout ratio is defined by management as the actual cash dividend divided by distributable cash. This is a key measure used by investors to value K-Bro, assess its performance and provide an indication of the sustainability of dividends. The payout ratio depends on the distributable cash and the Corporation’s dividend policy.

Debt to Total Capitalization

Debt to total capitalization is defined by management as the total long-term debt less cash and cash equivalents divided by the Corporation’s total shareholder’s equity. This is a measure used by investors to assess the Corporation’s financial structure.

Distributable Cash Flow, Payout Ratio, Debt to Total Capitalization, Adjusted EBITDA, Adjusted net earnings, and Adjusted net earnings per share are not calculations based on IFRS and are not considered an alternative to IFRS measures in measuring K-Bro’s performance. Distributable Cash Flow, Payout Ratio, Adjusted EBITDA, Adjusted net earnings, and Adjusted net earnings per share do not have standardized meanings in IFRS and are therefore not likely to be comparable with similar measures used by other issuers.

Off Balance Sheet Arrangements

As at December 31, 2018, the Corporation has not entered into any off balance sheet arrangements.

CHANGES IN ACCOUNTING POLICIES

The Corporation has prepared its December 31, 2018 audited consolidated financial statements in accordance with IFRS. See Note 2 of the Corporation’s audited annual Consolidated Financial Statements for more information regarding the significant accounting principles used to prepare the Consolidated Financial Statements.

RECENT ACCOUNTING PRONOUNCEMENTS

Significant Accounting Policies Adopted January 1, 2018

The following standards have been applied in preparing the consolidated financial statements.

- IFRS 9, Financial Instruments, was issued in July 2014 by the IASB and supersedes IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. IFRS 9 is to be applied retrospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation adopted the requirements of IFRS 9 using the retrospective approach without restating comparative information effective January 1, 2018. The adoption of IFRS 9 had no impact on the Corporation’s financial position or results of operations.

No retrospective adjustments were required in relation to amendments made to the Corporation’s credit facility prior to January 1, 2018, as the amendments were considered to be an extinguishment. The Corporation considers both quantitative and qualitative factors to assess if an amendment should be accounted for as an extinguishment or a modification.

- IFRS 15, Revenue from Contracts with Customers, was issued in May 2014 by the IASB and supersedes IAS 18, “Revenue”, IAS 11 “Construction Contracts” and other interpretive guidance associated with revenue recognition. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 is to be

applied using a full retrospective or a modified retrospective approach and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The core principle of IFRS 15 is that an entity should recognize revenue based on the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, IFRS 15 introduces a 5-step approach to revenue recognition:

- **Step 1:** Identify the contract(s) with a customer.
- **Step 2:** Identify the performance obligations in the contract.
- **Step 3:** Determine the transaction price.
- **Step 4:** Allocate the transaction price to the performance obligations in the contract.
- **Step 5:** Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue as a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer. The Corporation adopted the requirements of IFRS 15 using the modified retrospective approach, effective January 1, 2018, for any accounting or disclosure changes required under this standard. The adoption of IFRS 15 had no impact on the Corporation's financial position or results of operations.

IFRS 15 also requires disclosure of the aggregation of revenue into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Corporation determined this disclosure was already provided through the segment disclosure in Note 26.

- On June 20, 2016 the IASB issued an amendment to IFRS 2 "Share based Payment" addressing three classification and measurement issues. The amendment clarifies the measurement basis for cash-settled, share based payments and the accounting for modifications that change an award from cash-settled to equity settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly-equity settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share based payment and pay that amount to the tax authority. The amendments are effective for periods beginning on or after January 1, 2018. The Corporation adopted the amended

requirements of IFRS 2 effective January 1, 2018, for any accounting or disclosure changes required under this standard. Adoption of the amendments did not result in any changes to the presentation or disclosures in the financial statements.

New Standards and Interpretations Not Yet Adopted

The following standards have been issued but have not yet been applied in preparing the Consolidated Financial Statements.

- IFRS 16, Leases, was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 will supersede the current lease recognition guidance including IAS 17 "Leases" and the related interpretations when it becomes effective. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Corporation evaluated the impact the adoption of this standard will have on its consolidated financial statements and expects:

- IFRS 16 will result in on-balance sheet recognition of most of its leases that are considered operating leases under IAS 17. This will result in the gross-up of the balance sheet through the recognition of a right-of-use asset and a liability for the present value of the future lease payments.
- This change in policy is expected to result in the recognition of right-of-use assets and lease liabilities amounting to approximately \$50 million to \$55 million. In addition, the Corporation has \$2.9 million of liabilities at December 31, 2018 that are recorded in unamortized leasehold inducements that will be reclassified to lease liability on January 1, 2019.
- The Corporation continues to assess the impact of adopting IFRS 16 on deferred tax balances.

- Depreciation expense on the right-of-use asset and interest expense on the lease liability will replace the operating lease expense.
- Cash flows from operating activities is expected to increase under IFRS 16 as lease payments for substantially all leases will be recorded as financing outflows in the statement of cash flows as opposed to operating cash flows.

IFRS 16 will be applied for the 2019 using the modified approach and the Corporation will therefore not be restating comparative information. In addition, the Corporation has elected to use the following practical expedients on adoption of IFRS 16:

- The Corporation has not reassessed, under IFRS 16, contracts that were identified as leases under previous accounting standard (IAS 17).
- The Corporation will use a single discount rate to a portfolio of leases with reasonably similar underlying characteristics.
- The Corporation has used hindsight in determining the lease term where the lease contracts contain options to extend or terminate the lease.
- The Corporation expects to adopt the recognition exemptions permitted for short-term leases (less than twelve months) and leases for which the underlying asset has a low value, whereby the lease payments associated with these leases will continue to be expensed on a straight-line basis over the lease term.

In determining the lease term, Management considers all factors that may create an economic incentive to exercise a renewal option or termination option when determining the lease term under the new standard.

comprehensive income or loss, or through profit or loss), and those to be measured at amortized cost. The Corporation's financial assets are measured at amortized cost using the effective interest method under IFRS 9 and were previously measured at amortized cost under IAS 39. At initial recognition, K-Bro measures a financial asset at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Accounts payable and accrued liabilities and dividends payable are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method. The Corporation's financial liabilities consist of accounts payable and accrued liabilities, dividends payable and long-term debt.

Long-term debt and borrowings are initially recognized at fair value, net of transaction costs incurred and is subsequently measured at amortized cost. Long-term debt and borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period and included as part of the profit and loss. Derivative financial instruments are utilized by the Corporation to manage cash flow risk against the volatility in interest rates on its long-term debt and foreign exchange rates on its equipment purchase commitments. The Corporation typically does not utilize derivative financial instruments for trading or speculative purposes.

The Corporation has a floating interest rate debt that gives rise to risks that its earnings and cash flows may be adversely impacted by fluctuations in interest rates. In

FINANCIAL INSTRUMENTS

The Corporation's financial instruments at December 31, 2018 consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable, and long-term debt. The Corporation does not enter into financial instruments for trading or speculative purposes.

The Corporation classifies its financial assets as those to be measured subsequently at fair value (either through other

order to manage these risks, the Corporation may enter into interest rate swaps, forward contracts on foreign currency, utilities and textiles or option contracts.

The Corporation has entered into several electrical and natural gas contracts at December 31, 2018. The Corporation has examined the terms of the natural gas and electricity contracts and has determined that these contracts will be physically settled and as such are not considered to be financial instruments.

CRITICAL RISKS & UNCERTAINTIES

As at December 31, 2018, there are no material changes in the Corporation's risks or risk management activities since December 31, 2017. The Corporation's results of operations, business prospects, financial condition, cash dividends to Shareholders and the trading price of the Corporation's Shares are subject to a number of risks. These risk factors include: dependence on long-term contracts and the associated renewal risk thereof; the effects of market volatility and uncertainty; potential future tax changes; the competitive environment; our ability to acquire and successfully integrate and operate additional businesses; utility costs; the labour markets; the fact that our credit facility imposes numerous covenants and encumbers assets; and, environmental matters.

For a discussion of these risks and other risks associated with an investment in Corporation Shares, see *Risk Factors – Risks Related to K-Bro and the Laundry and Linen Industry* detailed in the Corporation's Annual Information Form that is available at www.sedar.com.

CONTROLS & PROCEDURES

In order to ensure that information with regard to reports filed or submitted under securities legislation present fairly in all material respects the financial information of K-Bro, management, including the President and Chief Executive

Officer ("CEO") and the Chief Financial Officer ("CFO"), are responsible for establishing and maintaining disclosure controls and procedures, as well as internal control over financial reporting.

Disclosure Controls and Procedures

The Corporation has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements of K-Bro was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Corporation's CEO and CFO have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2018, and the CEO and CFO have concluded that these controls were operating effectively.

Internal Controls Over Financial Reporting

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR"). Consequently the CEO and CFO confirm that the additions to these controls that occurred during the year ended December 31, 2018, did not materially affect, or are reasonably likely to materially affect, the Corporation's ICFR. Based upon their evaluation of these controls for the year ended December 31, 2018, the CEO and CFO have concluded that these controls were operating effectively.

A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instance of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that managements' assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or, (ii) the impact of isolated errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

Additional information regarding K-Bro including required securities filings are available on our website at www.k-brolinen.com and on the Canadian Securities Administrators' website at www.sedar.com; the System for Electronic Document Analysis and Retrieval ("SEDAR").

Vous pouvez obtenir des renseignements supplémentaires sur la Société, y compris les documents déposés auprès des autorités de réglementation, sur notre site Web, au www.k-brolinen.com et sur le site Web des autorités canadiennes en valeurs mobilières au www.sedar.com, le site Web du Système électronique de données, d'analyse et de recherche (« SEDAR »).



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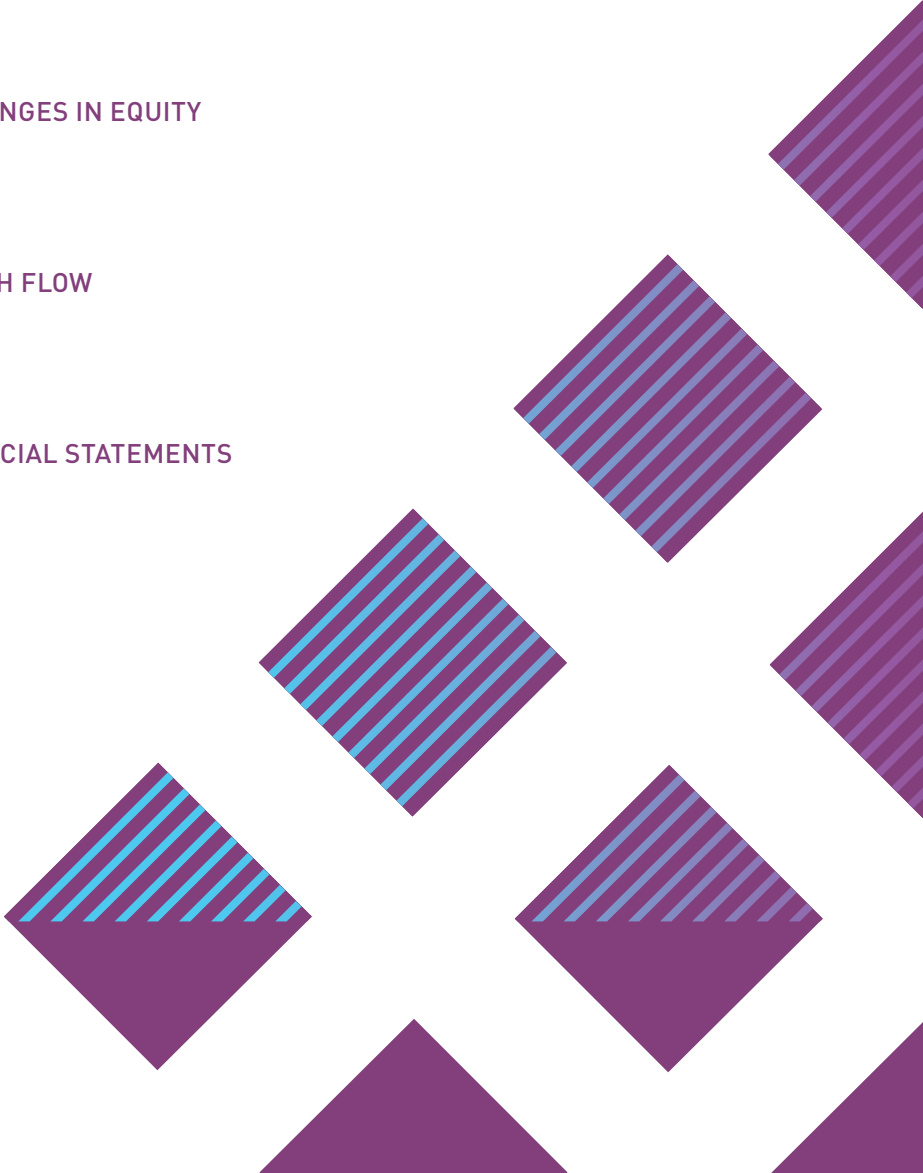
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CORPORATE INFORMATION



Independent auditor's report

To the Shareholders of K-Bro Linen Inc.

Our Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of K-Bro Linen Inc. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What We Have Audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of earnings and comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flow for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going

concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that

may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Anna Coghill.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants
Edmonton, Alberta / March 13, 2019

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$ Thousands of Canadian dollars)

	DEC 31, 2018	DEC 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	2,827	11,276
Accounts receivable	33,536	29,718
Income tax receivable	3,601	2,281
Prepaid expenses and deposits	4,228	3,309
Linen in service (note 7)	26,371	21,456
	70,563	68,040
Property, plant and equipment (note 8)	194,248	171,668
Intangible assets (note 9)	15,682	16,979
Goodwill (note 10)	41,736	38,526
	322,229	295,213
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	34,682	34,143
Income taxes payable	-	838
Dividends payable to shareholders	1,056	1,051
	35,738	36,032
Long-term debt (note 12)	70,203	42,780
Unamortized lease inducements (note 14)	2,854	2,583
Provisions (note 11)	2,645	2,393
Deferred income taxes (note 15)	12,129	9,838
	123,569	93,626
SHAREHOLDERS' EQUITY		
Share capital	201,429	199,772
Contributed surplus	2,112	1,952
Deficit	(6,547)	(65)
Accumulated other comprehensive income (loss)	1,666	(72)
	198,660	201,587
Contingencies and commitments (note 16)	322,229	295,213

The accompanying notes are an integral part of these consolidated financial statements.

APPROVED BY THE BOARD OF DIRECTORS



ROSS S. SMITH
Director



MATTHEW HILLS
Director

CONSOLIDATED STATEMENTS OF EARNINGS & COMPREHENSIVE INCOME

(\$ Thousands of Canadian dollars, except share and per share amounts)
Years ended December 31,

	2018	2017
REVENUE	239,534	170,559
Expenses		
Wages and benefits	99,992	70,352
Linen (note 7)	26,699	18,998
Utilities	14,991	10,393
Delivery	30,736	18,292
Occupancy costs	9,883	6,460
Materials and supplies	8,471	5,537
Repairs and maintenance	8,215	5,627
Corporate	11,030	10,879
(Gain) loss on disposal of property, plant and equipment	(64)	36
	209,953	146,574
EBITDA	29,581	23,985
Other expenses		
Depreciation of property, plant and equipment (note 8)	15,871	11,606
Amortization of intangible assets (note 9)	3,004	1,767
Finance expense (note 13)	3,315	1,133
	22,190	14,506
Earnings before income taxes	7,391	9,479
Current income tax (recovery) expense	(984)	2,137
Deferred income tax expense	2,206	1,624
Income tax expense	1,222	3,761
Net earnings	6,169	5,718
Other comprehensive income (loss)		
Items that may be subsequently reclassified to earnings:		
Foreign currency translation differences on foreign operations	1,738	(72)
Total comprehensive income	7,907	5,646
Net earnings per share (note 18):		
Basic	0.59	0.63
Diluted	0.59	0.63
Weighted average number of shares outstanding:		
Basic	10,466,458	9,083,693
Diluted	10,500,014	9,114,874

The accompanying notes are an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(\$ Thousands of Canadian dollars)

	Total Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (loss)	Total Equity
As at January 1, 2018	199,772	1,952	(65)	(72)	201,587
Total comprehensive income	-	-	6,169	1,738	7,907
Dividends declared (note 20)	-	-	(12,651)	-	(12,651)
Employee share based compensation expense	-	1,817	-	-	1,817
Shares vested during the year	1,657	(1,657)	-	-	-
As at December 31, 2018	201,429	2,112	(6,547)	1,666	198,660

(\$ Thousands of Canadian dollars)

	Total Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (loss)	Total Equity
As at January 1, 2017	109,390	1,944	5,338	-	116,672
Total comprehensive income	-	-	5,718	(72)	5,646
Net proceeds from common shares issued (note 17)	87,655	-	-	-	87,655
Deferred income tax impact of share issuance (note 17)	1,227	-	-	-	1,227
Dividends declared (note 20)	-	-	(11,121)	-	(11,121)
Employee share based compensation expense	-	1,508	-	-	1,508
Shares vested during the year	1,500	(1,500)	-	-	-
As at December 31, 2017	199,772	1,952	(65)	(72)	201,587

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

(\$ Thousands of Canadian dollars)

Years ended December 31,

	2018	2017
OPERATING ACTIVITIES		
Net earnings	6,169	5,718
Depreciation of property, plant and equipment (note 8)	15,871	11,606
Amortization of intangible assets (note 9)	3,004	1,767
Lease inducements, net of amortization (note 14)	262	401
Accretion expense (note 11)	129	42
Employee share based compensation expense	1,817	1,508
(Gain) loss on disposal of property, plant and equipment	(64)	36
Settlement of provision (note 11)	(460)	-
Deferred income taxes	2,206	1,624
	28,934	22,702
Change in non-cash working capital items (note 21)	(11,380)	(3,922)
Cash provided by operating activities	17,554	18,780
FINANCING ACTIVITIES		
Net proceeds of revolving debt	27,423	16,980
Net proceeds from issuance of common shares	-	87,655
Dividends paid to shareholders	(12,646)	(10,872)
Cash provided by financing activities	14,777	93,763
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (note 8)	(36,527)	(44,494)
Proceeds from disposal of property, plant and equipment	397	-
Purchase of intangible assets (note 9)	(106)	-
Acquisition of business (note 6)	(4,700)	(56,774)
Cash used in investing activities	(40,936)	(101,268)
Change in cash and cash equivalents during the year	(8,605)	11,275
Effect of exchange rate changes on cash and cash equivalents	156	1
Cash and cash equivalents, beginning of year	11,276	-
Cash and cash equivalents, end of year	2,827	11,276
Supplementary cash flow information		
Interest paid	2,959	703
Income taxes paid	1,199	5,000

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(\$ Thousands of Canadian dollars except share and per share amounts, Years ended December 31, 2018 and 2017)

K-Bro Linen Inc. (the “Corporation” or “K-Bro”) is incorporated in Canada under the Business Corporations Act (Alberta). K-Bro is the largest owner and operator of laundry and linen processing facilities in Canada and a market leader for laundry and textile services in Scotland and the North East of England. K-Bro and its wholly owned subsidiaries, operate across Canada and the United Kingdom (“UK”), provide a range of linen services to healthcare institutions, hotels and other commercial organizations that include the processing, management and distribution of general linen and operating room linen.

The Corporation’s operations in Canada include nine processing facilities and two distribution centres under three distinctive brands, including K-Bro Linen Systems Inc., Buanderie HMR and Les Buanderies Dextraze, in ten Canadian cities: Québec City, Montréal, Toronto, Regina, Saskatoon, Prince Albert, Edmonton, Calgary, Vancouver and Victoria.

The Corporation’s operations in the UK include Fishers Topco Ltd. (“Fishers”) which was acquired by K-Bro on November 27, 2017. Fishers was established in 1900 and is an operator of laundry and linen processing facilities in Scotland, providing linen rental, workwear hire and cleanroom garment services to the hospitality, health-care, manufacturing and pharmaceutical sectors. Fishers’ client base includes major hotel chains and prestigious venues across Scotland and the North East of England. The company operates in six cities, in Scotland and the North East of England with facilities in Cupar, Perth, Newcastle, Livingston, Inverness and Coatbridge.

The Corporation’s common shares are traded on the Toronto Stock Exchange under the symbol “KBL”. The address of the Corporation’s registered head office is 14903 – 137 Avenue, Edmonton, Alberta, Canada.

These audited annual consolidated financial statements (the “Consolidated Financial Statements”) were approved and authorized for issuance by the Board of Directors (“the Board”) on March 13, 2019.

1) BASIS OF PRESENTATION

The Consolidated Financial Statements of the Corporation have been prepared in accordance with International Financial Reporting Standards as published in the CPA Canada Handbook (IFRS). The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in Note 5.

2) SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

A) Basis of Measurement

The Consolidated Financial Statements have been prepared under the historical cost convention.

B) Principles of Consolidation

The consolidated financial statements include the Corporation, its wholly owned subsidiaries and the long-term incentive plan account (Note 2(p)). All intercompany balances and transactions have been eliminated upon consolidation.

C) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less.

Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value.

D) Linen in Service

Linen in service is stated at cost less accumulated depreciation. The cost is based on the expenditures that are directly attributable to the acquisition of linen, amortization commences when linen is put into service; with operating room linen amortized across its estimated service life of 24 months and general linen amortized based on usage which results in an estimated average service life of 24 months.

E) Revenue Recognition

1) Accounting Policy After January 1, 2018

A laundry services contract is a contract specifically negotiated for the provision of laundry and linen services. Revenue is based on contractually set pricing on a consistent unit-of-weight or price-per-piece basis for each service over the term of the contract. The Corporation reports revenue under two revenue categories: healthcare and hospitality services. When determining the proper revenue recognition method for contracts, the Corporation evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. The Corporation accounts for a contract when, it has commercial substance, the parties have approved the contract in accordance with customary business practices and are committed to their obligations, the rights of the parties and payment terms are identified, and collectability of consideration is probable.

1) Identifying the Contract

The Corporation's policy for revenue recognition requires an appropriately authorized contract, with sign-off by representatives from all respective parties, before any services are provided to a customer. Contained within the terms of these contracts is detailed information identifying each party's rights regarding the laundry and linen services to be provided, as well as associated payment terms (i.e. service pricing, early payment discounts, invoicing requirements, etc.). In addition, the Corporation's contracts have commercial substance as the services to be provided will directly impact the Corporation's future cash flows via incoming revenue and related outgoing expenditures.

As part of the Corporation's analysis in reviewing and accepting a contract, the Corporation assesses the likelihood of collection from all prospective customers and only transacts with those customers from which payment is probable. As the Corporation's significant customer contracts are generally with government-funded health agencies and large volume hotels, it is probable that the

Corporation will collect the consideration to which is entitled for the performance of these contracts.

For services provided following the expiration of a contract and subsequent renewal negotiations, the terms of the original contract carry forward until the new agreement has been appropriately authorized. This is confirmed through verbal approval, and is consistent with customary business practices.

2) Identifying Performance Obligations in a Contract

Linen services are provided to the Corporation's customers consecutively over a period of time (i.e. daily deliveries over the contract term) and the same method is used to measure the Corporation's progress in satisfying the performance of the contract (i.e. revenue is based on contractually set pricing on a consistent unit-of-weight or price-per-piece basis for each service over the term of the contract). Additionally, these services generally include integrated processing and delivery, consist of a single deliverable (clean processed volume), and in the case of rental linen, are not offered individually (rental linen is used as an input in the provision of standard laundry and linen services). Therefore, the services provided under one service agreement constitute a single performance obligation.

3) Determining the Transaction Price

The majority of the Corporation's contracts utilize a fixed pricing model. These contracts stipulate a fixed rate to be charged to customers on a price-per-unit basis, including either weight-based or item-based billing. For these types of arrangements, revenue is recognized over time as each unit of linen is processed and delivered using the fixed consideration rate per the contract. In addition to the above pricing methodology, some contracts have additional components which meet the definition of variable consideration per IFRS 15, which are accounted for using the most likely amount method. The estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the Corporation's anticipated performance and all information, historical, current and forecasted, that is reasonably available.

4) Allocating the Transaction Price

Each of the customer's individual customer contracts represents a single performance obligation. As a result, the transaction price for each contract (based on contractually stipulated fixed and variable pricing for a single deliverable) is allocated to each processed item based on the agreed upon rate.

Volume rebates, where applicable, are recorded based on annualized expected volumes of individual customer contracts when it is reasonable that the criteria are likely to be met. Based on past experience, management believes that volumes utilized for any estimates are reasonable and would not expect a material deviation to the balance of accrued liabilities or revenue.

5) Performance Obligations Satisfied Over Time

The Corporation typically transfers control of goods or services and satisfies performance obligations over time, once clean linen has been provided to the customer and the customer has accepted delivery of the processed items.

Payment of laundry services are due respective of the terms as indicated in the customer's laundry service contract, whereby customers are generally invoiced on a monthly basis and consideration is payable when invoiced.

ii) Accounting Policy Up to December 31, 2017

Revenue from linen management and laundry services is primarily based on written service agreements whereby the Corporation agrees to collect, launder, deliver and replenish linens. The Corporation recognizes revenue in the period in which the services are provided.

F) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be reliably measured. The carrying amount of a replaced part is derecognized. Repairs and maintenance are charged to the statement of earnings during the financial period in which they are incurred.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

The Corporation has not capitalized any borrowing costs during the year as there were no qualifying assets.

The major categories of property, plant and equipment are depreciated on a straight-line basis to allocate their cost over their estimated useful lives as follows:

ASSET	RATE
Buildings	15 – 25 years
Laundry equipment	7 – 20 years
Office equipment	2 – 5 years
Delivery equipment	5 – 10 years
Computer equipment	2 years
Leasehold improvements	Lease term

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset.

G) Intangible Assets

Intangible assets acquired in a business combination are recorded at fair value at the acquisition date. Subsequently they are carried at cost less accumulated amortization and accumulated impairment losses.

The major categories of intangible assets are depreciated on a straight-line basis to allocate their cost over their estimated useful lives as follows:

ASSET	RATE
Customer contracts	1 – 20 years
Computer software	5 years
Brand	Indefinite

These estimates are reviewed at least annually and are updated if expectations change as a result of changing client relationships or technological obsolescence.

H) Impairment of Non-Financial Assets

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating unit or "CGU"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The Corporation evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

I) Income Taxes

The tax expense for the year comprises current and deferred tax. Tax is recognized in statement of earnings, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax provision is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date of the taxation authority where the Corporation operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

J) Business Combinations

Business combinations are accounted for using the acquisition method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred.

K) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their estimated fair values at the acquisition date. Goodwill is allocated as of the date of the business combination. Goodwill is tested for impairment annually in the fourth quarter, or more

frequently if events or changes in circumstances indicate a potential impairment.

Goodwill acquired through a business combination is allocated to each CGU, or group of CGUs, that are expected to benefit from the related business combination. A CGU represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

L) Earnings Per Share

Basic earnings per share ("EPS") is calculated by dividing net earnings for the period attributable to Shareholders of the Corporation by the weighted average number of Common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of common shares included within the weighted average is computed using the treasury stock method. The Corporation's potentially dilutive Common shares are comprised of long-term incentive plan equity compensation granted to officers and key employees (Note 2(p)).

M) Foreign Currency Translation

The consolidated financial statements are presented in Canadian dollars. The Corporation's operations in Canada have a functional currency of Canadian dollars. The Corporation's operations in the UK have a functional currency of pounds sterling.

Translation of Foreign Entities

The functional currency for each of the Corporation's subsidiaries is the currency of the primary economic environment in which it operates. Operations with foreign functional currencies are translated into the Corporation's presentation currency in the following manner:

- Monetary and non-monetary assets and liabilities are translated at the spot exchange rate in effect at the reporting date;
- Revenue and expense items (including depreciation and amortization) are translated at average rates of exchange prevailing during the period, which approximate the exchange rates on the transaction dates;
- Impairment of assets are translated at the prevailing rate of exchange on the date of the impairment recognition, and;
- Exchange gains and losses that result from translation are recognized as a foreign currency translation difference in accumulated other comprehensive income (loss).

Translation of Transactions and Balances

Transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the date of the transaction as follows:

- Monetary assets and liabilities are translated at the exchange rate in effect at the reporting date;
- Non-monetary items are translated at historical exchange rates; and
- Revenue and expense items are translated at the average rates of exchange, except depreciation and amortization, which are translated at the rates of exchange applicable to the related assets, with any gains or losses recognized within "finance expense" in the consolidated statements of earnings & comprehensive income.

N) Provision

Provisions are recognised when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

O) Lease Inducements

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Tenant allowances and lease inducements are deferred when credited or received and amortized on a straight-line basis as a reduction of rent expense over the term of the related lease. For lease contracts with escalating lease payments, total rent expense for the lease term is expensed on a straight-line basis over the lease term. The difference between rent expensed and amounts paid is recorded as an increase or deferral in unamortized lease inducements.

P) Employee Benefits

Post-Employment Benefit Obligations

The Corporation contributes on behalf of its employees to their individual Registered Retirement Savings Plans subject to an annual maximum of 10% of gross personal earnings. The Corporation accounts for contributions as an expense in the period that they are incurred. The Corporation does not provide any other post-employment or post-retirement benefits.

Existing Equity-Based Compensation Plan of the Corporation

On June 16, 2011, the Shareholders of the Corporation approved a new Long-term Incentive Plan ("LTI"), which was amended and restated as of December 31, 2018. Under the LTI, awards are granted annually in respect of the prior fiscal year to the eligible participants based on a percentage of annual salary. The amount of the award (net of withholding obligations) is satisfied by issuing treasury shares or cash to be held in trust by the trustee pursuant to the terms of the LTI. All awards issued under the provisions of the LTI are recorded as compensation expense over the relevant service period, being the year to which the LTI relates and the vesting period of the shares.

The Amendment made on December 31, 2018 gave the Board of Directors the right to elect to satisfy the award in cash. The Corporation has determined that this change did not create an obligation to satisfy the award in cash and therefore the LTI continues to be treated as an equity settled share based payment.

Subject to the discretion of the Compensation, Nominating and Corporate Governance Committee of the Board of Directors, one-quarter of a Participant's grant will vest on the Determination Date (defined as the first May 15th following the date that the Directors of the Corporation approve the audited consolidated financial statements of the Corporation for the prior year). The remaining three-quarters of the Participant's grant will vest on November 30th following the second anniversary of the Determination Date.

If a change of control occurs, all LTI Shares held by the Administrator in respect of unvested grants will vest immediately. LTI participants are entitled to receive dividends on all common shares granted under the LTI whether vested or unvested. In most circumstances, unvested common shares held by the LTI Administrator for a participant will be forfeited if the participant resigns or is terminated for cause prior to the applicable vesting date, and those common shares will be disposed of by the Administrator to K-Bro for no consideration and such Common shares shall thereupon be cancelled. If a participant is terminated without cause, retires or resigns on a basis which constitutes constructive dismissal, the participant will be entitled to receive his or her unvested common shares on the regular vesting schedule under the LTI.

Q) Financial Instruments

i) Accounting Policy After January 1, 2018

The Corporation classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through other comprehensive income or loss, or through profit or loss); and
- those to be measured at amortized cost.

The classification depends on the Corporation's business model for managing the financial assets and contractual terms of the cash flows.

At initial recognition, the Corporation measures a financial asset at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

The Corporation's financial assets consist of cash and cash equivalents and accounts receivable, which are measured at amortized cost using the effective interest method under IFRS 9 and were previously measured at amortized cost under IAS 39.

The Corporation's financial liabilities consist of accounts payable and accrued liabilities, dividends payable and long-term debt. Accounts payable and accrued liabilities and dividends payable are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

Long-term debt and borrowings are initially recognized at fair value, net of transaction costs incurred and is subsequently measured at amortized cost. Long-term debt and borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period and included as part of the profit and loss.

ii) Accounting Policy Up to December 31, 2017

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition. Transaction costs are recognized immediately in income or are capitalized, depending upon the nature of the transaction and the associated instrument.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period and included as part of the profit and loss.

Loans, receivables and other liabilities

Loans, receivables and other liabilities are accounted for at amortized cost using the effective interest method.

The Corporation has made the following classifications:

	CLASSIFICATION	MEASUREMENT
Financial assets		
Accounts receivable	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Dividends payable	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

R) Impairment of Financial Assets

The Corporation has adopted IFRS 9, which expands on the guidance and disclosure requirements on the impairment of loans and receivables, and credit risk disclosure. Information about the impairment of financial assets, their credit quality and the Corporation's exposure to credit risk

can be found in Note 22(d). The Corporation has adopted the application of the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, the Corporation's trade receivables have been grouped based on operating segment, shared credit risk characteristics and days past due. Accounting judgment and estimate is required in the assessment of the lifetime expected default rate of each trade receivables grouping. The lifetime expected default rates are reviewed at least annually and are updated if expectations change.

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss equal to the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

3) CHANGES IN ACCOUNTING POLICIES

The following standards have been applied in preparing the Consolidated Financial Statements.

- IFRS 9, Financial Instruments, was issued in July 2014 by the IASB and supersedes IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. IFRS 9 is to be applied retrospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation adopted the requirements of IFRS 9 using the retrospective approach without restating comparative information effective January 1, 2018. The adoption of IFRS 9 had no impact on the Corporation's financial position or results of operations.

No retrospective adjustments were required in relation to amendments made to the Corporation's credit facility prior to January 1, 2018, as the amendments were considered to be an extinguishment. The Corporation considers both quantitative and qualitative factors to

assess if an amendment should be accounted for as an extinguishment or a modification.

- IFRS 15, Revenue from Contracts with Customers, was issued in May 2014 by the IASB and supersedes IAS 18, "Revenue", IAS 11 "Construction Contracts" and other interpretive guidance associated with revenue recognition. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 is to be applied using a full retrospective or a modified retrospective approach and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The core principle of IFRS 15 is that an entity should recognize revenue based on the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, IFRS 15 introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

- Under IFRS 15, an entity recognizes revenue as a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer. The Corporation adopted the requirements of IFRS 15 using the modified retrospective approach, effective January 1, 2018, for any accounting or disclosure changes required under this standard. The adoption of IFRS 15 had no impact on the Corporation's financial position or results of operations.
- IFRS 15 also requires disclosure of the aggregation of revenue into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Corporation determined this disclosure was already provided through the segment disclosure in Note 26.
- On June 20, 2016 the IASB issued an amendment to IFRS 2 "Share based Payment" addressing three classification and measurement issues. The amendment clarifies the measurement basis for cashsettled,

share based payments and the accounting for modifications that change an award from cashsettled to equity settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly-equity settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share based payment and pay that amount to the tax authority. The amendments are effective for periods beginning on or after January 1, 2018. The Corporation adopted the amended requirements of IFRS 2 effective January 1, 2018, for any accounting or disclosure changes required under this standard. Adoption of the amendments did not result in any changes to the presentation or disclosures in the financial statements.

4) NEW STANDARDS & INTERPRETATIONS NOT YET ADOPTED

The following standards have been issued but have not yet been applied in preparing the Consolidated Financial Statements.

- IFRS 16, Leases, was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 will supersede the current lease recognition guidance including IAS 17 "Leases" and the related interpretations when it becomes effective. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Corporation evaluated the impact the adoption of this standard will have on its consolidated financial statements and expects:

- IFRS 16 will result in on-balance sheet recognition of most of its leases that are considered operating leases under IAS 17. This will result in the gross-up

of the balance sheet through the recognition of a right-of-use asset and a liability for the present value of the future lease payments.

- This change in policy is expected to result in the recognition of right-of-use assets and lease liabilities amounting to approximately \$50 million to \$55 million. In addition, the Corporation has \$2.9 million of liabilities at December 31, 2018 that are recorded in unamortized leasehold inducements that will be reclassified to lease liability on January 1, 2019.
- The Corporation continues to assess the impact of adopting IFRS 16 on deferred tax balances.
- Depreciation expense on the right-of-use asset and interest expense on the lease liability will replace the operating lease expense.
- Cash flows from operating activities is expected to increase under IFRS 16 as lease payments for substantially all leases will be recorded as financing outflows in the statement of cash flows as opposed to operating cash flows.

IFRS 16 will be applied for 2019 using the modified approach and the Corporation will therefore not be restating comparative information. In addition, the Corporation has elected to use the following practical expedients on adoption of IFRS 16:

- The Corporation has not reassessed, under IFRS 16, contracts that were identified as leases under previous accounting standard (IAS 17).
- The Corporation will use a single discount rate to a portfolio of leases with reasonably similar underlying characteristics.
- The Corporation has used hindsight in determining the lease term where the lease contracts contain options to extend or terminate the lease.
- The Corporation expects to adopt the recognition exemptions permitted for short-term leases (less than twelve months) and leases for which the underlying asset has a low value, whereby the lease payments associated with these leases will continue to be expensed on a straight-line basis over the lease term.

In determining the lease term, Management considers all factors that may create an economic incentive to exercise a renewal option or termination option where determining the lease term under the new standard.

5) CRITICAL ACCOUNTING ESTIMATES & JUDGMENTS

The preparation of the Corporation's consolidated financial statements, in conformity with IFRS, requires management of the Corporation to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and judgments have been applied in a manner consistent with prior periods.

The following discusses the most significant accounting judgments and estimates that the Corporation has made in the preparation of the consolidated financial statements:

Impairment of Goodwill and Non-Financial Assets

The Corporation reviews goodwill at least annually and other non-financial assets when there is any indication that the asset might be impaired. The Corporation applies judgment in assessing the likelihood of renewal of significant contracts included in the intangible assets described in Note 9. The Corporation has estimated the fair value of CGUs to which goodwill is allocated based on value in use using discounted cash flow models that required assumptions about future cash flows, margins, and discount rates and the earnings multiple approach that utilizes Board approved budgets and implied multiples. The implied multiple is calculated by utilizing multiples of comparable public companies. Judgment is required in determining the appropriate comparable companies. Refer to Note 10 for more details amount methods and assumptions used in estimated net recoverable.

Recognition of Rebate Liabilities

In applying its accounting policy for volume rebates, the Corporation must determine whether the processing volume thresholds will be achieved. The most difficult and subjective area of judgment is whether a contract will generate satisfactory volume to achieve minimum levels. Management considers all appropriate facts and circumstances in making this assessment including historical experience, current volumetric run-rates, and expected future events.

Linen in Service

The estimated service lives of linen in service are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits of use.

Segment Identification

When determining its reportable segments, the Corporation considers qualitative factors, such as operations that offer distinct products and services and are considered to be significant by the Chief Operating Decision Maker, identified as the Chief Executive Officer. Aggregation occurs when the operating segments have similar economic characteristics, and have similar (a) products and services; (b) geographic proximity; (c) type or class of customer for their products and services; (d) methods used to distribute their products or provide their services; and (e) nature of the regulatory environment, if applicable.

Provisions

The Corporation is required to restore the leased premises of its leased plants. A provision has been recognized for the present value of the estimated expenditure required to remove any leasehold improvements and installed equipment. Refer to Note 11 for more details about estimation and judgments for this provision.

Business Combinations

In a business combination the Corporation acquires assets and assumes liabilities of an acquired business. Judgment is required to determine the fair values assigned to the tangible and intangible assets acquired and liabilities assumed in the acquisition. Determining fair values involves a variety of assumptions, including revenue growth rates, expected operating income and discount rates. During a measurement period, not to exceed one year, adjustments of the initial estimates may be required to finalize the fair value of assets acquired and liabilities assumed.

Management regularly evaluates these estimates and judgments. 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.

6) BUSINESS ACQUISITIONS

Linitek

On October 3, 2018, the Corporation completed the acquisition of 9306145 Canada Corp. operating as Linitek (the "Acquisition"), a private laundry and linen services company operating in Calgary, Alberta. The Acquisition was completed through an asset purchase agreement consisting of existing fixed assets, contracts and employee base. The contracts acquired are in the Alberta hospitality sector, which complements the existing business of the Corporation. The Acquisition has been accounted for using the acquisition method, as per the criteria in IFRS 3 for identification of a business combination, whereby the purchase consideration was allocated to the fair values of the net assets acquired.

The Corporation financed the cash portion of the Acquisition and transaction costs from existing loan facilities.

The purchase price allocated to the net assets acquired, based on their estimated fair values, was as follows:

	2018
Cash consideration	4,700
Net assets acquired:	
Property, plant & equipment	931
Lease provision	(117)
Intangible assets	1,186
Goodwill	2,700
	4,700

¹ For the year ended December 31, 2018, \$111 in professional fees associated with the acquisition has been included in Corporate expenses.

Intangible assets acquired are made up of \$1,186 for the customer contracts along with related relationships and customer lists. The goodwill is attributable to the workforce, and the efficiencies and synergies created between the existing business of the Corporation and the acquired business. Goodwill will be fully deductible for tax purposes.

The acquired business contributed revenues of \$469 to the Corporation for the period from October 3, 2018 to December 31, 2018. If the Acquisition had occurred on January 1, 2018, consolidated pro-forma revenue the year ended December 31, 2018 would have been \$241,709.

Annualized net profitability of the acquired business as if the acquisition had taken place at the beginning of the year have not been presented for the year ended December 31, 2018, due to the impracticality for the Corporation to disaggregate the information from the Corporation's existing business. Immediately following the acquisition, Linitek's business and operations were transitioned into the existing business of the Corporation to leverage efficiencies and synergies between the businesses.

Fishers

On November 27, 2017, the Corporation acquired all of the outstanding shares of Fishers Topco Limited ("Fishers"), a United Kingdom-based laundry and linen services company (the "Acquisition"). Fishers' was a private company limited by shares and is incorporated in the United Kingdom. The acquired business consisted of contracts primarily in the hospitality sector in Scotland and the North East of England, which complements the existing business of the Corporation. The business acquisition has been accounted for using the acquisition method, whereby the purchase consideration was allocated to the fair values of the net assets acquired.

The Corporation financed the cash portion of the acquisition, the repayment of Fishers' outstanding debt facilities and the payment of management fees and transaction costs from existing cash resources and existing loan facilities, including an amendment to its existing revolving credit which increased the available limit from \$85,000 to \$100,000 plus a \$25,000 accordion.

In addition, on December 12, 2017 the Corporation entered into an agreement to sell common shares, the net proceeds from the share offering were used to partially pay down the indebtedness that was incurred under the Corporation's amended revolving credit facility to initially fund the Acquisition. For further details regarding the share offering refer to Note 17.

The purchase price allocated to the net assets acquired, based on their estimated fair values, was as follows:

	2017 in Sterling £000's ⁽¹⁾	2017 in Canadian £000's ⁽¹⁾
Cash consideration	33,910	57,610
Net assets acquired:		
Cash working capital	492	836
Non-cash working capital, net	4,365	7,416
Property, plant & equipment	11,594	19,697
Leasehold inducements	(219)	(372)
Asset retirement obligations	(316)	(537)
Intangible assets	9,200	15,630
Deferred income tax liabilities	(1,860)	(3,160)
Goodwill	10,654	18,100
	33,910	57,610

¹ For the year ended December 31, 2017, \$2,831 (in Sterling £1,654) in professional fees associated with the acquisition has been included in Corporate expenses.

As part of the acquired working capital, the Corporation received various accounts receivable which when valued at fair value of \$8,307 (in Sterling £4,898) were equivalent to their exchange amounts.

Intangible assets acquired are made up of \$4,247 (in Sterling £2,500) for the brand, and \$11,383 (in Sterling £6,700) for the customer contracts along with related relationships and customer lists. The goodwill is attributable to the workforce, and the efficiencies and synergies created between the existing business of the Corporation and the acquired business. Goodwill will not be deductible for tax purposes.

The acquired business contributed revenues of \$4,728 (in Sterling £2,761) and net loss of \$2,881 (in Sterling £1,670) to the group for the period from November 27, 2017 to December 31, 2017.

If the acquisition had occurred on January 1, 2017, consolidated pro-forma revenue and net profit for the year ended December 31, 2017 would have been \$223,454 and \$8,798 respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

Differences in the accounting policies between the group and the subsidiary; and the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from January 1, 2017, together with the consequential tax effects.

Pro-forma net profit includes expenses which are not expected to be recurring as part of normal operations, which include transaction costs incurred in the sale of Fishers' for \$972 (in Sterling £568), and loss on disposal of assets of \$1,089 (in Sterling £636).

7) LINEN IN SERVICE

	2018	2017
Balance, beginning of year	21,456	11,511
Acquisition of business	-	7,234
Additions	31,393	21,718
Amortization charge	(26,699)	(18,998)
Effect of movement in exchange rates	221	(9)
Balance, end of year	26,371	21,456



8) PROPERTY, PLANT & EQUIPMENT

	Land	Buildings	Laundry Equip ⁽¹⁾	Office Equip	Delivery Equip	Computer Equip	Leasehold Improvements ⁽²⁾	Spare Parts	Total
YEAR ENDED, DEC 31, 2017									
Opening net book amount	2,454	17,265	69,617	304	250	377	22,428	563	113,258
Additions ⁽⁴⁾	-	20	36,599	49	17	417	13,141	144	50,387
Acquisition of business ⁽⁵⁾	1,571	3,947	14,177	-	-	-	-	-	19,695
Disposals	-	-	(36)	-	-	-	-	-	(36)
Depreciation charge	-	(990)	(7,207)	(108)	(59)	(423)	(2,819)	-	(11,606)
Effect of movement in exchange rates	(2)	(7)	(21)	-	-	-	-	-	(30)
Closing net book amount	4,023	20,235	113,129	245	208	371	32,750	707	171,668

AT DECEMBER 31, 2017

Cost	4,023	22,972	160,031	759	701	1,695	45,163	707	36,051
Accumulated depreciation	-	(2,737)	(46,902)	(514)	(493)	(1,324)	(12,413)	-	(64,383)
Net book amount	4,023	20,235	113,129	245	208	371	32,750	707	171,668

YEAR ENDED, DEC 31, 2018

Opening net book amount	4,023	20,235	113,129	245	208	371	32,750	707	71,668
Additions ⁽⁴⁾	-	152	20,979	273	77	979	14,318	526	37,304
Acquisition of business ⁽⁶⁾	-	-	712	-	138	81	-	-	931
Disposals	-	-	(310)	-	(23)	-	-	-	(333)
Transfers	-	(257)	-	-	-	-	257	-	-
Depreciation charge	-	(1,129)	(10,654)	(132)	(76)	(473)	(3,407)	-	(15,871)
Effect of movement in exchange rates	44	108	396	1	-	-	-	-	549
Closing net book amount	4,067	19,109	124,252	387	324	958	43,918	1,233	194,248

AT DECEMBER 31, 2018

Cost	4,067	22,980	179,727	975	872	2,755	59,679	1,233	72,288
Accumulated depreciation	-	(3,871)	(55,475)	(588)	(548)	(1,797)	(15,761)	-	(78,040)
Net book amount	4,067	19,109	124,252	387	324	958	43,918	1,233	194,248

¹ Included in laundry equipment are assets under development in the amount of \$1,582 (2017 - \$23,625). These assets are not available for service and accordingly are not presently being depreciated.

² Included in leasehold improvements are assets under development in the amount of \$0 (2017 - \$8,251). These assets are not available for service and accordingly are not presently being depreciated.

³ Total property, plant and equipment additions include amounts in accounts payable of \$6,127 (2017 - \$5,799).

⁴ Additions include amounts from the Canadian Division of \$34,421 (2017-\$50,387) and from the UK Division of \$2,883 (2017 - \$0).

⁵ Includes amounts related to property, plant and equipment assets of the acquired business which are included in the reportable segment for the UK division.

⁶ Includes amounts related to property, plant and equipment assets of the acquired business which are included in the reportable segment for the Canadian division.



9) INTANGIBLE ASSETS

	Healthcare Relationships	Hospitality Relationships	Computer Software	Brand	Total
YEAR ENDED, DEC 31, 2017					
Opening net book amount	2,507	634	-	-	3,141
Acquisition of business ⁽¹⁾	-	11,383	-	4,247	15,630
Amortization charge	(1,043)	(724)	-	-	(1,767)
Effect of movement in exchange rates	-	(18)	-	(7)	(25)
Closing net book amount	1,464	11,275	-	4,240	16,979
AT DECEMBER 31, 2017					
Cost	19,200	19,915	927	4,240	44,282
Accumulated amortization	(17,736)	(8,640)	(927)	-	(27,303)
Net book amount	1,464	11,275	-	4,240	16,979
YEAR ENDED, DEC 31, 2018					
Opening net book amount	1,464	11,275	-	4,240	16,979
Additions ⁽¹⁾	-	104	-	-	104
Acquisition of business ⁽²⁾	-	1,186	-	-	1,186
Amortization charge	(481)	(2,523)	-	-	(3,004)
Effect of movement in exchange rates	-	297	-	120	417
Closing net book amount	983	10,339	-	4,360	15,682
AT DECEMBER 31, 2018					
Cost	19,200	21,502	927	4,360	45,989
Accumulated amortization	(18,217)	(11,163)	(927)	-	(30,307)
Net book amount	983	10,339	-	4,360	15,682

¹ Includes amounts related to intangible assets of the acquired business which are included in the reportable segment for the UK division.

² Includes amounts related to intangible assets of the acquired business which are included in the reportable segment for the Canadian division.

10) GOODWILL

The Corporation performed its annual assessment for goodwill impairment for the Canadian division and for the UK division as at December 31, 2018 in accordance with its policy described in Note 2(k). Goodwill has been allocated to the following CGUs:

	2018	2017
Calgary	8,082	5,382
Edmonton	4,346	4,346
Vancouver 2	3,413	3,413
Victoria	3,208	3,208
Vancouver 1	2,630	2,630
Montréal	823	823
Québec	654	654
Canadian division	23,156	20,456
UK division	18,100	18,100
Changes due to movement in exchange rates	480	(30)
UK division	18,580	18,070
Goodwill	41,736	38,526

Management has adjusted its approach in testing goodwill. The change in methodology was used to balance the extent of testing and analysis required for CGUs where no indication of goodwill exists and CGUs where additional analysis is required.

Key Assumptions Used in 2018 Impairment Test

To calculate the recoverable amount for the CGUs management uses the higher of the fair value less costs of disposal and value in use. The recoverable amount was determined using either a discounted cash flow approach or an earnings multiple approach. The Corporation references Board approved budgets and cash flow forecasts, trailing twelve-month EBITDA, implied multiples and appropriate discount rates in the valuation calculations. The implied multiple is calculated by utilizing the average multiples of comparable public companies. For the significant Canadian CGU's, the Corporation used implied average forward multiples that ranged from 10.0 to 11.4 to calculate the recoverable amounts. For the UK division, the implied average forward multiples ranged from 9.0 to 10.5 to calculate the recoverable amount.

The fair value of calculations are categorized as Level 3 fair value based on the unobservable inputs.

Key Assumptions Used in 2017 Impairment Test

Canadian Division

Management performed its assessment for goodwill impairment on December 31, 2017, by measuring the recoverable amount based off the value in use by discounting the future cash flows generated from continued use. The model calculated the present value of the estimated future earnings for all CGUs in the Canadian division. The Corporation determined that the estimated recoverable amounts of the CGUs exceeded their carrying amounts by a significant amount. The estimated recoverable amounts were determined based on the value in use of the CGUs using available cash flow forecasts over a 5 year period that made maximum use of observable markets for inputs and outputs, including actual historical performance. For periods beyond the budgeted period, cash flows were extrapolated using growth rates that did not exceed the long-term averages for the business. Key assumptions included a weighted average growth rate of 3% and a pre-tax discount rate of 10% to 12% for all CGUs. The growth rates represented management's assessment of future industry trends and were based on both external and internal sources, as well as historical data.

The recoverable amount of each CGU was in excess of its carrying amount. Significant CGUs with an individual carrying value greater than 10% of the total consolidated carrying value include Edmonton, Calgary, Victoria, Vancouver 1 and 2. For these CGUs the recoverable amount significantly exceeded the carrying amount. Based on sensitivity analysis, no reasonably possible change in key assumptions would cause the carrying amount of these CGUs to exceed its recoverable amount.

UK Division

Management performed its assessment for goodwill impairment on November 28, 2017, the day immediately after the acquisition that gave rise to the goodwill (Note 6). The best evidence of fair value is the acquisition price paid by the Corporation which was negotiated between two unrelated parties adjusted for estimated disposal costs and any entity specific considerations. This analysis indicated the recoverable amount was not significantly different from the carrying amount of the CGU. The fair value estimate is included in level 2 of the fair value hierarchy.

11) PROVISIONS

The Corporation's provision includes lease provisions and obligations to restore leased premises of its leased plants. A provision has been recognized for the present value of the estimated expenditure required to settle the lease provision and to remove leasehold improvements and installed equipment. The Corporation estimates the undiscounted, inflation adjusted cash flows required to settle these obligations at December 31, 2018 to be \$3,150 (2017 – \$2,853). Management has estimated the present value of this obligation at December 31, 2018 to be \$2,645 (2017 – \$2,393) using an inflation rate of 1.72% (2017 – 1.72%) and pre-tax weighted average risk-free interest rate of 1.85% to 2.13% (2017 – 0.75% to 2.5%) dependent upon length of the lease term, which reflects current market assessments of the time value of money. These obligations are expected to be incurred over an estimated period from 2019 to 2033.

Management estimates the provision based on information from previous asset retirement obligations, as well as plant specific factors. Factors that could impact the estimated obligation are labour costs, the extent of removal work required, the number of lease extensions exercised and the inflation rate. As at December 31, 2018, if actual costs were to differ by 10% from management's estimate the obligation would be an estimated \$265 (2017 – \$239) higher or lower. It is possible the estimated costs could change and changes to these estimates could have a significant effect on the Corporation's consolidated financial statements.

The Corporation recorded the following provision activity during the year:

	2018	2017
Balance, beginning of year	2,393	-
Adoption of standard	-	1,302
Additions	450	513
Acquisition of business	117	537
Accretion expense	129	42
Changes due to movement in exchange rates	16	(1)
Settlement	(460)	-
Balance, end of year	2,645	2,393

12) LONG-TERM DEBT

Prime Rate Loan⁽¹⁾

At January 1, 2017	25,800
Net proceeds from debt	16,980
Closing balance at December 31, 2017	42,780

At January 1, 2018	42,780
Net proceeds from debt	27,423
Closing balance at December 31, 2018	70,203

¹ Prime rate loan, collateralized by a general security agreement, bears interest at prime plus an interest margin dependent on certain financial ratios, with a monthly repayment of interest only, maturing on July 31, 2021 (December 31, 2017 – July 31, 2021). The additional interest margin can range between 0.0% to 1.25% dependent upon the calculated Debt/EBITDA financial ratio, with a range between 0 to 3.5x. As at December 31, 2018, the combined interest rate was 4.70% (December 31, 2017 – 3.7%).

The Corporation has a revolving credit facility of up to \$100,000 plus a \$25,000 accordion of which \$71,353 is utilized (including letters of credit totaling \$1,150) as at December 31, 2018. Interest payments only are due during the term of the facility.

Drawings under the revolving credit facility are available by way of Bankers' Acceptances, Canadian prime rate loans, Libor of UK pounds based loans, letters of credit or standby letters of guarantee. Drawings under the revolving credit facility bear interest at a floating rate, plus an applicable margin based on certain financial performance ratios.

A general security agreement over all assets, a mortgage against all leasehold interests and real property, insurance policies and an assignment of material agreements have been pledged as collateral.

The carrying value of borrowings approximate their fair value as the debt is based on a floating rate, the interest rate risk has not changed, and the impact of discounting is not significant.

The Corporation has incurred no events of default under the terms of its credit facility agreement.

13) FINANCE EXPENSE

	2018	2017
Interest on long-term debt	2,793	396
Accretion expense	129	42
Other charges, net	393	695
	3,315	1,133

14) UNAMORTIZED LEASE INDUCEMENTS

	2018	2017
Balance, beginning of year	2,792	2,112
Lease inducements received	438	408
Acquisition of business	-	370
Amortization charge	(209)	(98)
Effect of movement in exchange rates	9	-
	3,030	2,792
Less current portion, included in accrued liabilities	(176)	(209)
	2,854	2,583

15) INCOME TAXES

A reconciliation of the expected income tax expense to the actual income tax expense is as follows:

	2018	2017
Current tax:		
Current tax (recovery) on profits for the year	(984)	2,137
Total current tax	(984)	2,137
Deferred tax:		
Origination and reversal of temporary differences	2,241	1,578
Impact of substantively enacted rates and other	(35)	46
Total deferred tax	2,206	1,624



The tax on the Corporation's earnings differs from the theoretical amount that would arise using the weighted average tax rate applicable to earnings of the consolidated entities as follows:

	2018	2017
Earnings before income taxes	7,391	9,479
Non (deductible)/taxable expenses	(1,189)	4,657
Income subject to tax	6,202	14,136
Income tax at statutory rate of 26.9% (2017 - 26.53%)	1,668	3,750
Difference between Canadian and foreign tax rates	(61)	1
Impact of substantively enacted rates and other	(385)	10
Income tax expense	1,222	3,761

The analysis of the deferred tax assets and deferred tax liabilities is as follows:

	2018	2017
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	(1,846)	(2,368)
Deferred tax asset to be recovered within 12 months	(484)	(95)
	(2,330)	(2,463)
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	10,283	8,467
Deferred tax liability to be recovered within 12 months	4,176	3,834
	14,459	12,301
Deferred tax liabilities, net	12,129	9,838

The movement of deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdictions, is as follows:

	Asset Retirement Obligation	Offering Costs and Other	Total
Deferred tax assets:			
At January 1, 2017	-	(695)	(695)
Acquisition of business	-	(238)	(238)
Charged (credited) to the statement of earnings	(500)	196	(304)
Charged (credited) to the statement of changes in equity	-	(1,227)	(1,227)
Related to movements in exchange rates	-	1	1
At December 31, 2017	(500)	(1,963)	(2,463)
Charged (credited) to the statement of earnings	(30)	169	139
Related to movements in exchange rates	-	(6)	(6)
At December 31, 2018	(530)	(1,800)	(2,330)

Deferred tax liabilities:	Linen in Service	Property, Plant and Equipment	Intangible Assets and Goodwill	Total
At January 1, 2017	2,999	3,218	764	6,981
Acquisition of business	32	708	2,657	3,397
Charged (credited) to the statement of earnings	800	1,406	(282)	1,924
Related to movements in exchange rates	1	(1)	(1)	(1)
At December 31, 2017	3,832	5,331	3,138	12,301
Acquisition of business	-	-	17	17
Charged (credited) to the statement of earnings	344	2,127	(421)	2,050
Related to movements in exchange rates	-	21	70	91
At December 31, 2018	4,176	7,479	2,804	14,459

16) CONTINGENCIES & COMMITMENTS

A) Contingencies

The Corporation has standby letters of credit issued as part of normal business operations in the amount of \$1,150 (December 31, 2017 – \$1,650) which will remain outstanding for an indefinite period of time.

Grievances for unspecified damages were lodged against the Corporation in relation to labour matters. The Corporation has disclaimed liability and is defending the actions. It is not practical to estimate the potential effect of these grievances but legal advice indicates that it is not probable that a significant liability will arise.

B) Commitments

Operating Leases and Utility Commitments

At December 31, 2018, the Corporation was committed to minimum lease payments for operating leases on buildings and equipment and estimated natural gas and electricity commitments for the next five calendar years and thereafter are as follows:

Operating lease commitments

2019	9,181
2020	7,373
2021	6,312
2022	5,650
2023	4,729
Subsequent	27,943
	61,188

Utility commitments

2019	5,860
2020	1,288
2021	1,274
2022	-
2023	-
Subsequent	-
	8,422

Linen Purchase Commitments

At December 31, 2018, the Corporation was committed to linen expenditure obligations in the amount of \$9,314 (December 31, 2017 – \$10,232) to be incurred within the next year.

Property, Plant and Equipment Commitments

At December 31, 2018, the Corporation was committed to capital expenditure obligations in the amount of \$1,622 (December 31, 2017 – \$28,748) to be incurred within the next year.

17) SHARE CAPITAL

A) Authorized

The Corporation is authorized to issue an unlimited number of common shares and such number of shares of one class designated as preferred shares which number shall not exceed 1/3 of the common shares issued and outstanding from time to time.

B) Issued

	2018	2017
Balance, beginning of year	10,508,502	8,023,480
Common shares issued under LTI	51,434	42,422
Common share issuance under equity offering	-	2,442,600
Balance, end of year	10,559,936	10,508,502
Unvested common shares held in trust for LTI	63,346	54,880

On April 25, 2017 the Corporation closed a bought deal offering of 1,518,000 common shares at \$38.00/share. The net proceeds of the offering after deducting expenses of the offering and the underwriter's fee were \$55,000. The net proceeds of the offering were used to reduce the revolving debt to nil, and to fund the build out of the Corporation's state-of-the-art facilities in Toronto and Vancouver, and for general corporate purposes.

On December 12, 2017 the Corporation closed a bought deal offering of 924,600 common shares at \$37.35/share. The net proceeds of the offering after deducting expenses of the offering and the underwriter's fee were \$32,655. The net proceeds of the offering were used to partially pay down indebtedness that was incurred under K-Bro's amended \$100,000 senior secured revolving credit facility to fund the acquisition of Fishers.

18) EARNINGS PER SHARE

A) Basic

Basic earnings per share is calculated by dividing the net earnings attributable to equity holders of the Corporation by the weighted average number of ordinary shares in issue during the year.

	2018	2017
Net earnings	6,169	5,718
Weighted average number of shares outstanding (thousands)	10,466	9,084
Net earnings per share, basic	0.59	0.63

The basic net earnings per share calculation excludes the unvested Common shares held by the LTIP Account.

B) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares to assume conversion of all dilutive potential ordinary shares.

	2018	2017
Basic weighted average shares for the year	10,466,458	9,083,693
Dilutive effect of LTI shares	33,556	31,181
Diluted weighted average shares for the year	10,500,014	9,114,874
Net earnings	6,169	5,718
Weighted average number of shares outstanding (thousands)	10,500	9,115
Net earnings per share, diluted	0.59	0.63

19) LONG-TERM INCENTIVE PLAN

An account was formed to hold equity grants issued under the terms of the LTI on behalf of the participants (the "LTIP Account") and under certain circumstances the Corporation may be the beneficiary of forfeited Common shares held by the LTIP Account. The Corporation has control over the LTIP Account as it is exposed, or has rights, to variable returns

and has the ability to affect those returns through its power over the LTIP Account. Therefore the Corporation has consolidated the LTIP Account. Compensation expense is recorded by the Corporation in the period earned. Dividends paid by the Corporation with respect to unvested Common shares held by the LTIP Account are paid to LTI participants. Unvested Common shares held by the LTIP Account are shown as a reduction of shareholders' equity.

	2018 Unvested	Vested	2017 Unvested	Vested
Balance, beginning of year	54,880	408,135	44,634	375,958
Issued during year	34,802	16,633	28,544	13,879
Vested during year	(26,336)	26,336	(18,298)	18,298
Balance, end of year	63,346	451,104	54,880	408,135

The cost of the 63,346 (2017 - 54,880) unvested Common shares held by the LTIP Account at December 31, 2018 was nil (2017 - nil).

20) DIVIDENDS TO SHAREHOLDERS

During the years ended December 31, 2018, the Corporation declared total dividends to shareholders of \$12,651 or \$1.200 per share (2017 - \$11,121 or \$1.200 per share).

The Corporation's policy is to pay dividends to Shareholders of its available cash to the maximum extent possible

consistent with good business practice considering requirements for capital expenditures, working capital, growth capital and other reserves considered advisable by the Directors of the Corporation. All such dividends are discretionary. Dividends are declared payable each month to the Shareholders on the last business day of each month and are paid by the 15th day of the following month.

21) NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

Years ended December 31,	2018	2017
Accounts receivable	(3,571)	(2,961)
Linen in service	(4,695)	(2,720)
Prepaid expenses and deposits	(876)	(309)
Accounts payable and accrued liabilities ⁽¹⁾	(62)	4,930
Income taxes payable / receivable	(2,176)	(2,862)
	(11,380)	(3,922)

¹ Accounts payable and accrued liabilities exclude the net change in non-cash amounts related to the acquisition of property, plant and equipment that have been committed to but not yet paid of \$328 (2017 - \$4,078).

22) FINANCIAL INSTRUMENTS

A) Fair Value

The Corporation's financial instruments at December 31, 2018 and 2017 consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable to shareholders, and long term debt. The carrying value of accounts receivable, accounts payable and accrued liabilities, and dividends payable to shareholders approximate fair value due to the immediate or short-term maturity of these financial instruments. The fair value of the Corporation's interest-bearing debt approximates the respective carrying amount due to the floating rate nature of the debt.

B) Financial Risk Management

The Corporation's activities are exposed to a variety of financial risks: price risk, credit risk and liquidity risk. The Corporation's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Corporation's financial performance. Risk management is carried out by financial management in conjunction with overall corporate governance.

C) Price Risk

Currency Risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar.

The Corporation's operations in Canada are not significantly exposed to foreign currency risk as all revenues are received in Canadian dollars and minimal expenses are incurred in foreign currencies.

The Corporation's operations in the UK transacts in Sterling pounds £, with minimal revenue and expenses that are incurred in other foreign currencies. The Corporation is sensitive to foreign exchange risk arising from the translation of the financial statements of subsidiaries with a functional currency other than the Canadian dollar impacting other comprehensive income (loss).

For large capital expenditure commitments denominated in a foreign currency, the Corporation will enter into foreign exchange forward contracts if considered prudent to mitigate this risk.

Based on financial instrument balances as at December 31, 2018, a strengthening or weakening of \$0.01 of the Canadian dollar to the U.S. dollar with all other variables held constant could have a favorable or unfavorable impact of approximately \$57, respectively, on net earnings.

Based on financial instrument balances as at December 31, 2018, a strengthening or weakening of \$0.01 of the Canadian dollar to the Sterling pounds £, with all other variables held constant could have an unfavorable or favorable impact of approximately \$22, respectively, on other comprehensive loss.

Interest Rate Risk

The Corporation is subject to interest rate risk as its credit facility bears interest at rates that depend on certain financial ratios of the Corporation and vary in accordance with market interest rates. Based on the credit facility at year end, the sensitivity to a 100 basis point movement in interest rates would result in an impact of \$702 to net earnings.

Other Price Risk

The Corporation's exposure to other price risk is limited since there are no significant financial instruments which fluctuate as a result of changes in market prices.

D) Credit Risk

The Corporation has financial assets that are subject to the expected credit loss model. The Corporation's financial assets that are exposed to credit risk consist of cash and cash equivalents and accounts receivable. The Corporation, in the normal course of business, is exposed to credit risk from its customers.

Management believes that the risks associated with concentrations of credit risk with respect to accounts receivable are limited due to the generally short payment terms, and the nature of the customers, which are primarily publicly funded health care entities. The credit risk associated with cash and cash equivalents is minimized by ensuring these financial assets are held with Canadian chartered banks and Standard Chartered Bank United Kingdom.

Cash and Cash Equivalents

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Accounts Receivable

The Corporation applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 60 months before December 31, 2018 or January 1, 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the receivables. The Corporation has identified the GDP and the unemployment rate of the countries in which it provide services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at December 31, 2018 or January 1, 2018 (on adoption of IFRS 9) was determined as follows for trade receivables:

December 31, 2017	Gross	Allowance	Net
Current	22,060	-	22,060
1 to 60 days	6,659	-	6,659
61 to 90 days	573	-	573
Greater than 90 days	794	368	426
	30,086	368	29,718

December 31, 2018	Gross	Allowance	Net
Current	24,540	-	24,540
1 to 60 days	7,208	-	7,208
61 to 90 days	1,139	-	1,139
Greater than 90 days	754	105	649
	33,641	105	33,536

While the Corporation evaluates a customer's credit worthiness before credit is extended, provisions for potential credit losses are also maintained. The change in allowance for doubtful accounts was as follows:

	2018	2017
Balance, beginning of year (calculated under IAS 39)	368	31
Amounts restated under opening retained earnings	-	-
Opening loss allowance at January 1, 2018 (calculated under IFRS 9)	368	31
Adjustment made during the year	(10)	(10)
Acquisition of business	-	348
Write-offs	(262)	-
Effect of movements in exchange rates	9	(1)
Balance, end of year	105	368

Previous Accounting Policy for Impairment of Trade Receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively, to determine whether there was objective evidence that impairment had been incurred but not yet been identified. For these receivables, the estimated impairment losses were recognized

in a separate provision for impairment. The Corporation considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganization, and
- default or delinquency in payments (more than 60 days overdue).

E) Liquidity Risk

The Corporation's accounts payable and dividend payable are due within one year. Payments due under contractual obligations for the next five years and thereafter are as follows:

Deferred tax liabilities:	Payments Due by Period				
	Total	< 1 Year	1–3 Years	4–5 Years	> 5 Year
Long-term debt	70,203	-	70,203	-	-
Operating lease commitments	61,188	9,181	13,685	10,379	27,943
Utility commitments	8,422	5,860	2,562	-	-
Linen purchase obligations	9,314	9,314	-	-	-
Property, plant and equipment commitments	1,622	1,622	-	-	-

The Corporation has a credit facility with a maturity date of July 31, 2021 (Note 12). The degree to which the Corporation is leveraged may reduce its ability to obtain additional financing for working capital and to finance investments to maintain and grow the current levels of cash flows from operations. The Corporation may be unable to extend the maturity date of the credit facility.

Management, to reduce liquidity risk, has historically renewed the terms of the credit facility in advance of its

maturity dates and the Corporation has maintained financial ratios that management believes are conservative compared to financial covenants applicable to the credit facility. A significant portion of the available facility remains undrawn.

Management measures liquidity risk through comparisons of current financial ratios with financial covenants contained in the credit facility.

23) CAPITAL MANAGEMENT

The Corporation views its capital resources as the aggregate of its debt, shareholders' equity and amounts available under its credit facility. In general, the overall capital of the Corporation is evaluated and determined in the context of its financial objectives and its strategic plan.

The Corporation's objective in managing capital is to ensure sufficient liquidity to pursue its growth and expansion strategy, while taking a conservative approach towards financial leverage and management of financial risk. The Corporation's capital is composed of shareholders' equity and long-term debt. The Corporation's primary uses of capital are to finance its growth strategies and capital expenditure programs. The Corporation currently funds these requirements from internally-generated cash flows and interest bearing debt.

The Corporation pays a dividend which reduces its ability to internally finance growth and expansion. However the availability of the Corporation's revolving line of credit provides sufficient access to capital to allow K-Bro to take advantage of acquisition opportunities. The merits of the dividend are periodically evaluated by the Board.

The primary measures used by the Corporation to monitor its financial leverage are the ratios of Funded Debt to EBITDA (earnings before income taxes, depreciation and amortization) and Fixed Charge Coverage. EBITDA is an additional GAAP measure as prescribed by IFRS and has been presented in the manner in which the chief operating decision maker assesses performance.

The Corporation manages a Funded Debt to EBITDA ratio calculated as follows:

	2018	2017
Long-term debt, including current portion	70,203	42,780
Issued and outstanding letters of credit	1,150	1,650
Cash and cash equivalents	(2,827)	(11,276)
Funded debt	68,526	33,154
Net earnings for the trailing twelve months	6,169	5,718
Add:		
Income tax expense	1,222	3,761
Finance expense	3,315	1,133
Depreciation of property, plant and equipment	15,871	11,606
Amortization of intangible assets	3,004	1,767
EBITDA	29,581	23,985
Funded debt to EBITDA	2.32x	1.38x

The Corporation manages a Fixed Charge Coverage calculated on a trailing twelve-month basis as follows:

	2018	2017
EBITDA	29,581	23,985
Finance expense	3,315	1,133
Dividends to shareholders	12,651	11,121
	15,966	12,254
Fixed charge coverage	1.9x	2.0x

24) RELATED PARTY TRANSACTIONS

The Corporation transacts with key individuals from management and with the Board who have authority and responsibility to plan, direct and control the activities of the Corporation. The nature of these dealings were in the form of payments for services rendered in their capacity as Directors (retainers and meeting fees, including share-based payments) and as employees of the Corporation (salaries, benefits, short-term bonuses and share-based payments).

Key management personnel are defined as the executive officers of the Corporation including the President and Chief Executive Officer, Senior Vice-President, Chief Financial Officer and one employee acting in the capacity of Managing Director, UK.

During 2018 and 2017, remuneration to directors and key management personnel was as follows:

	2018	2017
Salaries and retainer fees	1,836	1,487
Short-term bonus incentives	935	912
Post-employment benefits	63	45
Share-based payments	1,438	1,290
	4,272	3,734

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by a Director. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms. For the years ended December 31, 2018, the Corporation incurred such fees totaling \$138 (2017 – \$138).

25) EXPENSES BY NATURE

	2018	2017
Wages and benefits	118,347	82,184
Linen	26,699	18,998
Utilities	14,991	10,393
Delivery	18,197	11,358
Materials and supplies	10,485	6,683
Occupancy costs	10,075	6,652
Repairs and maintenance	8,215	5,627
Other expenses	2,944	4,679
	209,953	146,574

26) SEGMENTED INFORMATION

The Chief Executive Officer ("CEO") is the Corporation's chief operating decision-maker. The Chief Executive Officer examines the Corporation's performance and allocation of resources both from geographic perspective and service type, and has identified two reportable segments of its business:

1) Canadian division - provides laundry and linen services to the healthcare and hospitality sectors through nine operating divisions located in Vancouver, Victoria, Calgary, Edmonton, Regina, Toronto, Montréal, and Québec City. Management has assessed that the services offered and the economic characteristics associated with these divisions are similar, and therefore they have been aggregated into one reportable segment which operates exclusively in Canada. This reportable segment is inclusive of the Corporation's acquisition of Linitek on October 3, 2018.

2) UK division - provides laundry and linen services primarily to the hospitality sector, with other sectors including healthcare, manufacturing and pharmaceutical, through seven sites including one distribution center, which are located in Cupar, Perth, Newcastle, Livingston, Inverness and Coatbridge.

The aggregation assessment requires significant judgment by management. Economic indicators used by management to assess the economic characteristics are the gross margin and the growth rate of each division.

The CEO primarily uses a measure of EBITDA to assess the performance of the operating segments. However, the CEO also receives information about the segments' revenue and assets on a monthly basis.

Segment Revenue

The Corporation disaggregates revenue from contracts with customers by geographic location and customer-type for each of our segments, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same manner as in the consolidated statements of earnings & comprehensive income.

In Edmonton, the Corporation is the significant supplier of laundry and linen services to the entity which manages all major healthcare facilities in the region and this contract expires on March 31, 2023. In Calgary, the major customer is contractually committed to February 28, 2020, in Vancouver



the major customer is contractually committed to March 1, 2027, and in Saskatchewan the major customer is contractually committed to June 1, 2025. For the years ended December 31, 2018, from these four major customers the Corporation has recorded revenue of \$98,850 (2017 – \$92,340), representing 41.2% (2017 – 54.1%) of total revenue.

	2018		2017	
Healthcare	128,933	53.8%	116,948	68.6%
Hospitality	50,956	21.3%	48,883	28.7%
Canadian division	179,889	75.1%	165,831	97.3%
Healthcare	6,379	2.7%	561	0.3%
Hospitality	53,266	22.2%	4,167	2.4%
UK division	59,645	24.9%	4,728	2.7%
Total segment revenue	239,534	100.0%	170,559	100.0%

Segment Net Earnings and EBITDA

Segment net earnings and EBITDA are calculated consistent with the presentation in the financial statements. The net earnings and EBITDA is allocated based on the operations of the segment, and where the earnings and costs are generated from.

2018	Canadian Division	UK Division	Total
Net earnings	2,701	3,468	6,169
EBITDA	21,370	8,211	29,581
2017	Canadian Division	UK Division ⁽¹⁾	Total
Net earnings	8,599	(2,881)	5,718
EBITDA	26,493	(2,508)	23,985

The Canadian division net earnings includes non-cash employee share based compensation expense of \$1,817 (2017 – \$1,508).

Segment Assets

Segment assets are measured in the same way as in the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

The Corporation's cash and cash equivalents are not considered to be segment assets, but are managed by the treasury function.

At December 31, 2018	Canadian Division	UK Division	Total
Total assets	244,768	77,461	322,229
Other:			
Cash and cash equivalents	-	(2,827)	(2,827)
Total segment assets	244,768	74,634	319,402

At December 31, 2017	Canadian Division	UK Division	Total
Total assets	225,339	69,874	295,213
Other:			
Cash and cash equivalents	-	(11,276)	(11,276)
Intercompany loans	(10,934)	10,934	-
Total segment assets	214,405	69,532	283,937

Segment Liabilities

Segment liabilities are measured in the same way as in the financial statements. These liabilities are allocated based on the operations of the segment.

The Corporation's borrowings are not considered to be segment liabilities, but are managed by the treasury function.

At December 31, 2018	Canadian Division	UK Division	Total
Total liabilities	111,044	12,525	123,569
Other:			
Long-term debt (note 12)	(70,203)	-	(70,203)
Total segment liabilities	40,841	12,525	53,366

At December 31, 2017	Canadian Division	UK Division	Total
Total liabilities	78,410	15,216	93,626
Other:			
Long-term debt (note 12)	(42,780)	-	(42,780)
Total segment liabilities	35,630	15,216	50,846

27) SUBSEQUENT EVENTS

A) Dividends

The Corporation's Board of Directors declared an eligible dividend of \$0.10 per Common share of the Corporation payable on each of February 15, March 15 and April 15, 2019 to Shareholders of record on January 31, February 28, and March 31, 2019 respectively.

B) Alberta Healthcare Contract Extension

On March 1, 2019, the Corporation was awarded a 1 year extension to provide laundry and linen services to Alberta Health Services Calgary. The contract extends the existing relationship between the Corporation and Alberta Health Services Calgary.



CORPORATE INFORMATION

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Dimitri Hamm
Directeur Général

Fabien Poirier
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John Marshall
General Manager

BOARD OF DIRECTORS

ROSS SMITH, FCPA
FCA (Chair)
Corporate Director

MATTHEW HILLS, MBA
Managing Director
LLM Capital Partners

STEVEN MATYAS, BSc
Corporate Director

LINDA MCCURDY, MBA
President & CEO
K-Bro Linen Systems Inc.

MICHAEL PERCY, PhD
Professor
School of Business
University of Alberta

EXECUTIVE OFFICERS

LINDA MCCURDY, MBA
President & CEO

SEAN CURTIS
Senior VP & COO
(Edmonton)

KRISTIE PLAQUIN, CPA, CA
Chief Financial Officer

*TRANSFER AGENT
& REGISTRAR*
AST Trust Company
Calgary, Alberta

AUDITORS
Pricewaterhouse-
Coopers LLP
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LEGAL COUNSEL
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Toronto, Ontario
McLennan Ross LLP
Edmonton, Alberta

PRINCIPAL BANK
TD Bank
Edmonton, Alberta

STOCK EXCHANGE LISTING
TSX: KBL

NOTICE OF **ANNUAL & SPECIAL MEETING**

*THE ANNUAL MEETING OF SHAREHOLDERS WILL BE HELD AT THE OFFICES
OF STIKEMAN ELLIOTT LLP, 5300 COMMERCE COURT WEST, 199 BAY STREET,
TORONTO, ONTARIO ON THURSDAY, JUNE 6, 2019 AT 9:00 A.M. EDT*



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