K·BRO

2017 ANNUAL REPORT

K-BRO
180

TABLE OF CONTENTS

PRESIDENT'S MESSAGE 2

CHAIRMAN'S MESSAGE 4

OFFICERS & DIRECTORS 5

FINANCIAL HIGHLIGHTS 7

MANAGEMENT'S DISCUSSION & ANALYSIS 13

CONSOLIDATED FINANCIAL STATEMENTS 43

"WE WILL CONTINUE
TO PURSUE PROFITABLE
GROWTH DOMESTICALLY
AND INTERNATIONALLY,
& I AM EXCITED ABOUT
OUR OPPORTUNITIES IN
2018 AND BEYOND."

PRESIDENT'S MESSAGE

2017 WAS A YEAR UNLIKE ANY OTHER IN OUR HISTORY. THE YEAR ENDED WITH K-BRO HAVING MORE PATHS TO PROFITABLE GROWTH THAN AT ANY TIME IN OUR HISTORY, AND WE BELIEVE THAT WE ARE WELL POSITIONED FOR GROWTH ACROSS OUR DIFFERENT MARKETS.

KEY ACHIEVEMENT INCLUDED:

- Our acquisition of Fishers in November for $58 million (£35 million). Fishers is a leading UK linen services company with six plants and one depot in Scotland and the North East of England. We believe the acquisition was well-priced and provides a platform for further growth opportunities in the UK and Europe. The Fishers acquisition is K-Bro's first growth opportunity outside of Canada.

- We opened our new Toronto plant, moving from a 39,000 square foot plant into our 80,000 square foot plant. With our significant increase in capacity and lower operating costs, we are optimistic about our Toronto growth prospects. In late 2016 and early 2017 we added healthcare accounts representing $7.6 million in additional revenue.

- We made substantial progress in building a new state-of-the-art healthcare plant in Vancouver, which will enable us to realize lower operating costs and greater capacity. We also began renovation of our hospitality plant, which will further provide us with lower costs and additional capacity. Both plants are expected to open in the first half of 2018, and in the past year we have already added healthcare accounts representing $5.2m in additional revenue.

- Our Regina plant had a full year of smooth operations, with the transition of our Saskatchewan volume having been completed in 2016. We are pleased with Regina's operations and have additional capacity to meet growth opportunities.

- ~$92 million of equity was raised in April and December, and we increased our credit facility with TD to $100 million (leaving us with approximately $55.6 million of unused drawdown capacity at year-end). The additional equity offerings enabled us to maintain significant flexibility in our capital structure, and our larger bank line allows us to fund additional organic and acquisition growth.

- Revenue and Adjusted EBITDA were $171 million and $26.8 million respectively, representing changes from 2016 of 7.2% and -4.7% respectively. We have commented on 2017 and 2018 margins in past filings, and noted in our 2016 Annual Report that "…we will also incur transition and other one-time costs related to positioning our Company for years of new growth opportunities". We have communicated in our filings that we expect a return to historical margins in 2019.

We begin 2018 as the largest company in our industry in Canada and a leading position in the UK, with growth opportunities both in Canada and overseas. We are excited about our two new state-of-the-art Vancouver plants that will open in 2018, and we now operate nine plants in Canada and six plants in the UK.

We are optimistic about our growth opportunities, and look forward to an exciting future for K-Bro and our customers, employees, and suppliers. Our management team and 2,800 employees appreciate your confidence and support, and we work hard every day to earn it. We look forward to sharing a successful future with you.

LINDA McCURDY

"OUR CONTINUING EFFORTS TO BUILD NEW STATE-OF-THE-ART PLANTS HAVE STRENGTHENED OUR COMPETITIVE POSITIONS & ENABLED US TO OFFER AN IMPROVED SERVICE AT LOWER COSTS FOR OUR CUSTOMERS."

CHAIRMAN'S MESSAGE

2017 WAS AN IMPORTANT YEAR FOR K-BRO, AND WE ARE PLEASED THAT THE COMPANY IS WELL-POSITIONED FOR PROFITABLE GROWTH.

The Fishers acquisition is the Company's first outside of Canada. We have acquired a market leader with six plants in Scotland and the North East of England, and we now have additional overseas growth opportunities going forward.

Our new Toronto plant opened in 2017, and we are opening two new and refurbished Vancouver plants in 2018. Our continuing efforts to build new state-of-the-art plants have strengthened our competitive positions and enabled us to offer an improved service at lower costs for our customers. This will continue to be our model in the years ahead as we grow and strengthen our valued relationships.

On behalf of our entire Company, thank you for your support and confidence. All of us at K-Bro — the management team, our 2,800 employees, and our Board — will continue to work hard every day to earn your loyalty and trust. We look forward to a successful 2018 and beyond.

ROSS SMITH

VICTORIA | VANCOUVER | CALGARY | EDMONTON | REGINA
TORONTO | MONTRÉAL | QUÉBEC CITY | SCOTLAND

OFFICERS & DIRECTORS

K-BRO IS CANADA'S LARGEST HEALTHCARE AND HOSPITALITY LAUNDRY AND LINEN PROCESSOR IN CANADA, AND 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 centres 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.

"IN 2017 WE OPENED OUR NEW STATE-OF-THE-ART TORONTO FACILITY, AND BEGAN CONSTRUCTION AND RENOVATION OF OUR TWO VANCOUVER FACILITIES THAT WILL OPEN IN 2018. BY THE END OF 2018 WE WILL HAVE MOST OF OUR CANADIAN VOLUME PROCESSED IN RECENTLY CONSTRUCTED AND MODERNIZED FACILITIES ACROSS THE COUNTRY."

SEAN CURTIS, SENIOR VICE-PRESIDENT AND COO

"BECAUSE LEADERSHIP AND PROGRESS ARE IMPORTANT TO STAKEHOLDERS, WE HAVE MADE SIGNIFICANT INVESTMENTS IN EXISTING MARKETS AS WELL AS NEW ONES. IN 2018 WE WILL OPEN ONE NEW PLANT AND RENOVATE ANOTHER. AS WELL K-BRO WILL SEE THE FIRST FULL-YEAR BENEFIT OF OUR FISHERS ACQUISITION. WITH OUR OPERATING AND FINANCIAL TRANSACTIONS NEARLY COMPLETE, WE HAVE BUILT THE PLATFORM FOR PROFITABLE GROWTH AND NEW CHANNELS OF VALUE CREATION."

LINDA MCCURDY, PRESIDENT AND CHIEF EXECUTIVE OFFICER

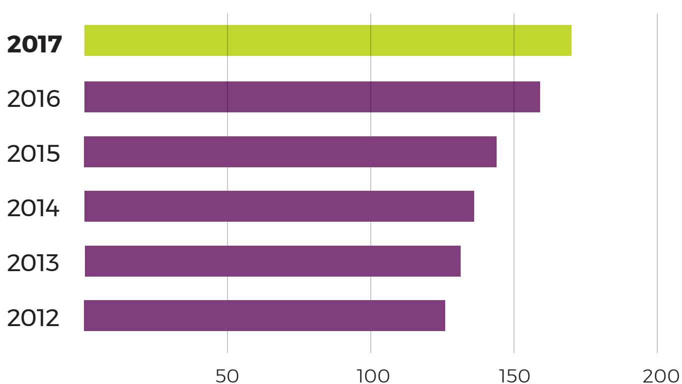
"WE MAINTAIN A FLEXIBLE CAPITAL STRUCTURE EVEN AS WE HAVE COMPLETED SIGNIFICANT ACQUISITIONS AND THE CONSTRUCTION OF NEW PLANTS. THIS FLEXIBILITY PROVIDES K-BRO WITH THE ABILITY TO FUND NEW GROWTH OPPORTUNITIES."

KRISTIE PLAQUIN, CHIEF FINANCIAL OFFICER

FROM LEFT TO RIGHT: ROSS SMITH, LINDA MCCURDY, KRISTIE PLAQUIN, MICHAEL PERCY, SEAN CURTIS, STEVEN MATYAS, MATTHEW HILLS, SYLVAIN TREMBLAY, DIMITRI HAMM, KEVIN STEPHENSON, STEVE CUMMINGS, JEFF GANNON, KEVIN MCELGUNN, SEAN JACKSON

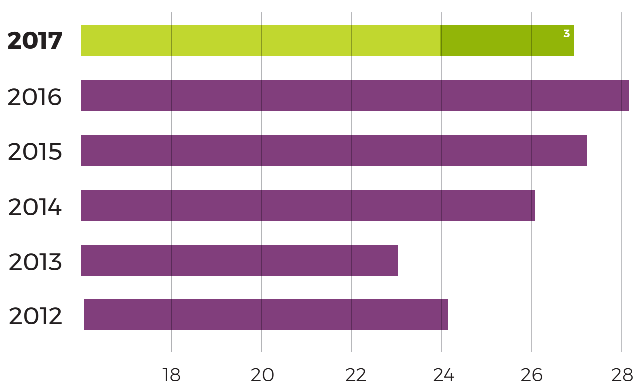
REVENUE

(In millions of Canadian dollars) Years ended December 31



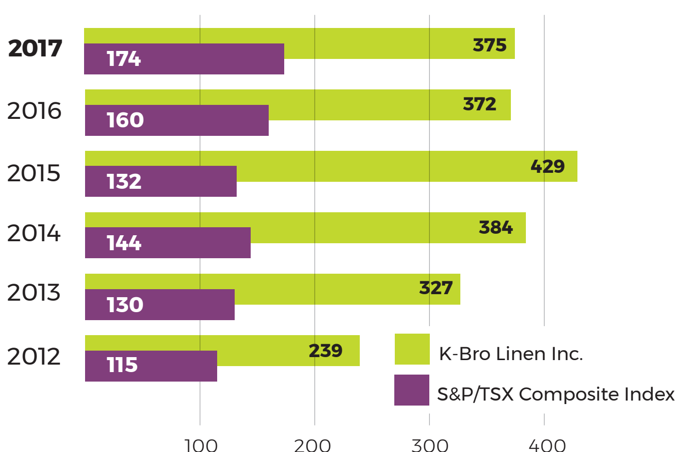
EBITDA AND ADJUSTED EBITDA

(In millions of Canadian dollars) Years ended December 31



TOTAL SHAREHOLDER RETURN

$100 investment in 2009



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
7.2%

EBITDA
DOWN
14.7%

ADJUSTED EBITDA
DOWN
4.7%

1 The total shareholder return graph reflects the total cumulative return, assuming reinvestment of all dividends, of $100 invested on December 31, 2009 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.

3 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, and the related impact on EBITDA (as defined above). During the fourth quarter in 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.

"WE RELENTLESSLY FOCUS ON DELIVERING THE HIGHEST QUALITY & SERVICE TO OUR MANY VALUED CUSTOMERS. THAT CORE COMMITMENT ENABLES US TO CONTINUE TO GROW & DELIVER STRONG FINANCIAL RESULTS."

"K-BRO CONTINUES TO EXCEL AT WINNING NEW OPPORTUNITIES AND RENEWING OUR EXISTING CONTRACTS WITH OUR VALUED CUSTOMERS. WE CONTINUE TO FOCUS ON OUR CORE BUSINESS OF PROVIDING THE HIGHEST QUALITY LINEN SERVICES IN THE INDUSTRY, BUILDING ON DECADES OF EXPERIENCE."

SEAN CURTIS, SENIOR VICE-PRESIDENT AND COO

We are committed to remain as Canada's premier linen processing company, with nine plants across our country. We have also welcomed Fishers to the K-Bro family with our 2017 acquisition of one of the UK's largest and highest quality linen processors.

We continue to focus our growth initiatives on businesses that we know and have a track record of operating in a superior fashion. We remain focused on growth in regions where we have an existing competitive advantage or can develop one. K-Bro has invested over $250 million in our business in the last decade. These investments have enabled K-Bro to grow in current and new markets in Canada and overseas. We continue to play a significant role in providing high quality linen services to health care and hospitality customers in all of our markets.

WE ARE DEPENDABLE.

Our 15 plants and three distribution centres in Canada and the UK provide services to almost 2,900 customers, and we have more than 2,800 employees. We finished 2017 with total assets of $295 million, market capitalization of $434 million and significant financial capacity to finance further organic and acquisition growth.

One of our key strategies for growth is to pursue opportunities for expansion through acquisition. We follow a strict set of criteria when evaluating another organization's potential, examining every facet of a target company. Does it open up a new or strategically placed geographic market or market niche for us? Is there a potential for growth in the market it serves? Will we be able to build on relationships the company already has in place? Can we build on an pre-existing base of business? Does it enhance our resources overall?

Taking advantage of relationships already in place includes maintaining the existing team of a company. The ability and commitment demonstrated by staff members is a factor in our decision-making process for acquisitions. The bottom line is that we want profitable, dependable operations where we can bring our expertise and resources to grow the existing base of business. We continue to review and pursue accretive opportunities in new markets and we believe that such opportunities may be available in the future to further add to our growth.

Our November 2017 acquisition of Fishers was an excellent fit with these criteria. We were attracted to Fishers because the Company has a strong position in a well-defined market and a strong and successful management team. Its leading position in the growing UK market, specifically in Scotland and northern England, provides a foundation for future organic and acquisition growth overseas for K-Bro. There are customer and operating synergies that are already being shared between our Canadian and UK businesses. Our acquisition price was accretive to K-Bro, and we have maintained financial flexibility to fund organic and acquisition growth going forward.

DIVERSIFIED & INTEGRATED SERVICES

We provide critical services including, support and management of linen requirements that address each and every one of our customers' needs.

STRATEGICALLY POSITIONED

K-Bro has fifteen plants (nine in Canada) and three distribution centres located in Canada and Scotland, which ensure our ability to provide uninterrupted service in the wake of disasters, pandemics or other adversity.

LONG-TERM STABLE CONTRACTS

By anticipating our customers' needs, delivering consistently dependable service and acting with integrity, K-Bro has developed long-term relationships with its customers.

COMMITTED WORKFORCE

Our corporate culture enables us to attract and retain quality laundry staff and our national presence provides opportunities for career advancement. Eight members of our senior management team have an average tenure of in excess of 15 years with K-Bro.

SINGLE SOURCE FOR CUSTOMERS

K-Bro is able to deliver total linen management services, including laundering, drying, folding, quota cart development, sterilization, and more that focus on efficiencies and cost savings. As one of the largest linen purchasers in Canada, we leverage our market position to drive savings for our customers. K-Bro works in partnership with our clients to reduce their linen consumption.

K-BRO CONTINUED TO ADD NEW CLIENTS AND ADD BUSINESS FROM EXISTING CLIENTS IN 2017.

We successfully integrated significant new healthcare volume in British Columbia (previously processed by another linen processor), and in Toronto we were awarded two large healthcare accounts (also previously processed by another linen processor). In Alberta we added additional volume from our current healthcare clients. We also completed our acquisition of Fishers, providing us with a significant UK presence.

Each new customer was a victory for the entire K-Bro team and a reflection of the company as a whole, rather than any individual. The qualities that contribute to our success are the same ones that define us as leaders in customer service – an impeccable and dependable record, comprehensive service programs, financial stability, competitive costs, experience in transitioning large accounts, and access to the resources that support growth, including the ability to purchase linen and equipment in anticipation of higher volume.

Our policy at K-Bro has always been one of proactive response. In order to meet our goal of being the absolute best laundry and linen services provider in the country, we continually review our service offerings, adding to our menu and providing more comprehensive service capabilities than other linen companies. We watch our industry and think ahead to strategically address the future needs of the markets we serve. Our clients talk to us not only about their present needs, but about the direction of the future. They depend on the knowledge we've accumulated over our history.

During 2017 we enjoyed an entire year of fine-tuning our Regina operations after the large volume transitions in 2015 and 2016, completed the transition to our new highly-automated Toronto plant, and began construction and renovation of two Vancouver plants. Each of our new plants is a state-of-the-art facility that provides us with significant capacity increases while also lowering our operating costs.

K-Bro's value-added services provide a 'one-stop shop' for linen services, and currently include:

- Exchange cart preparation
- Delivery of carts to user wards and departments
- Reusable OR linen and pack rental (KOR services)
- Distribution and control of uniforms
- Personal clothing services
- Customer service programs
- Linen purchase and supply
- Linen inventory management reports and services
- Sterilization of operating room linen packs

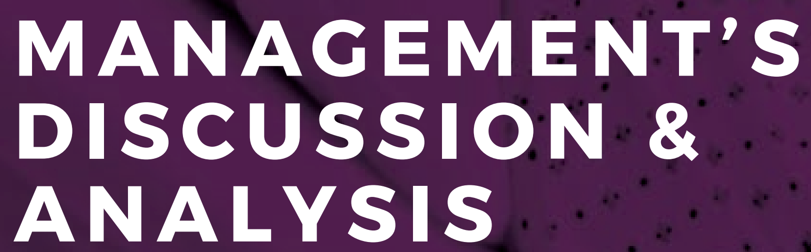
At K-Bro, we continue to innovate and develop new processes and systems, and further refine business delivery and practices. When we launched our company on the public markets we stated that we were ready for whatever lay ahead of us. As the events of the next thirteen years unfolded, our readiness contributed to our success in dependability and growth. The hands-on nature of our management team and established relationships with open lines of communication with our customers are the source of our advantage.

“AS EVENTS HAVE UNFOLDED SINCE ENTERING THE PUBLIC MARKET, OUR READINESS HAS CONTRIBUTED TO OUR SUCCESS IN DEPENDABILITY & GROWTH.”

The following selected 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.

Years ended December 31	2017	2016	2015	2014	2013	2012
Income Statement Data						
Revenue	170,559	159,089	144,537	136,440	131,202	126,290
EBITDA	23,985	28,236	27,140	26,241	23,317	24,517
EBITDA%	14.1	17.7	18.8	19.2	17.8	19.4
Net earnings	5,718	11,527	12,068	12,198	10,336	11,149
Net earnings per share *(Diluted)*	0.63	1.44	1.52	1.72	1.47	1.59
Balance Sheet Data						
Working Capital	32,008	13,766	8,670	21,717	9,434	8,064
Long-Term Debt	42,780	25,800	2,349	0	19,640	5,818
Other Financial Data						
Distributable cash per share	2.20	2.76	2.69	2.85	2.61	2.72
Payout Ratio%	55.5	43.5	44.8	42.0	44.2	41.8
Price to earnings multiple *(12 month trailing)*	65.6	29.3	33.5	26.9	27.0	18.1
Price to EBITDA multiple *(12 month trailing)*	15.7	11.9	14.9	12.5	12.0	8.2
Return on shareholders’ equity ROE %	2.8	9.9	10.7	11.1	14.5	16.5
Total Shareholder return, YTD%	0.9	14.9	13.1	19.4	41.2	34.9
Total Shareholder return, 5 yrs%	19.3	66.4	155.0	182.9	235.2	253.8
Market capitalization	434.211	338,190	406,872	367,023	280,976	203,613
Share price:						
High	45.00	50.98	56.99	47.90	40.50	30.18
Low	37.39	36.69	43.00	36.90	28.38	21.20
Close	41.32	42.15	50.95	46.11	39.60	28.86

($ Thousands of Canadian dollars, except per share data and percentages)



MANAGEMENT'S DISCUSSION & ANALYSIS

INTRODUCTION	17
STRATEGY	18
FOURTH QUARTER OVERVIEW	18
SUMMARY OF 2017 RESULTS, KEY EVENTS & OUTLOOK	20
OUTLOOK	25
KEY PERFORMANCE DRIVERS	26
RESULTS OF OPERATIONS	27
LIQUIDITY & CAPITAL RESOURCES	33
DIVIDENDS	34
DISTRIBUTABLE CASH FLOW	35
TERMINOLOGY	37
CHANGES IN ACCOUNTING POLICIES	40
RECENT ACCOUNTING PRONOUNCEMENTS	40
FINANCIAL INSTRUMENTS	41
CRITICAL RISKS & UNCERTAINTIES	41
CONTROLS & PROCEDURES	42

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, 2017 and 2016, as well as the unaudited interim condensed Consolidated Financial Statements for the periods ended March 31, 2017, June 30, 2017 and September 30, 2017. 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 14, 2018.

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 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; and (iv) 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 the William Osler Health System and Trillium Health Partners and other 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.

"EVERY DAY WE MUST EARN THE RESPECT & FAITH OF OUR CUSTOMERS WITH THE HIGHEST QUALITY & HIGHEST VALUE SERVICE."

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 seven 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, workwear and clean room garment services. Other types of processors in Fishers industry in the UK include 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, KBro 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 Cyclicality

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 seven 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 & 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 customer includes 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 >250 rooms) generate between 500,000 and 3 million pounds of linen per year. Most healthcare customers generate between 500,000 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 seven 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

In the fourth quarter of 2017, revenue increased by 21.0% to $47.5 million from $39.3 million in the comparative period. This increase was due to the acquisition of Fishers, additional awarded healthcare volume from the Vancouver lower mainland contract, William Osler Health System volume, Trillium Health Partners volume, organic growth at existing customers, and new customers secured in existing markets.

EBITDA was $4.5 million for the three months ended December 31, 2017, compared to $6.4 million in the comparative period of 2016. The change in EBITDA and margin was primarily associated with the one-time transaction costs related to the acquisition of Fishers which was $2.8 million, offset by efficiencies gained as a result of the capital expenditures made in Toronto.

SELECTED ANNUAL FINANCIAL INFORMATION

	CANADIAN DIVISION 2017	UK DIVISION 2017	2017	2016 [1]	2015 [1]
Revenue	165,831	4,728	170,559	159,089	144,537
Earnings before income taxes	12,402	(2,923)	9,479	16,367	17,261
Net earnings	8,599	(2,881)	5,718	11,527	12,068
Adjusted net earnings	8,599	(50)	8,549	11,527	12,068
Net earnings (loss) per share:					
Basic	0.947	(0.317)	0.629	1.449	1.524
Diluted	0.943	(0.316)	0.627	1.443	1.522
Adjusted net earnings (loss) per share:					
Basic	0.947	(0.006)	0.941	1.449	1.524
Diluted	0.943	(0.005)	0.938	1.443	1.522
Total assets			295,213	168,289	143,023
Long-term debt			42,780	25,800	2,349
Weighted average number of shares outstanding:					
Basic			9,083,693	7,955,026	7,920,609
Diluted			9,114,874	7,986,729	7,930,492

($ Thousands, except percentages and per share amounts)

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

SUMMARY OF 2017 RESULTS, KEY EVENTS & OUTLOOK

FINANCIAL GROWTH

K-Bro's Canadian division delivered strong financial results in 2017 driven by the operating results from all nine of its processing plants and two distribution centers. In the UK, net earnings were impacted as a result of $2.8 million in acquisition costs incurred in the quarter. Net earnings were $5.7 million or $0.63 per Common Share (basic). Cash flow from operating activities was $18.8 million and distributable cash flow was $20 million. Revenue increased in fiscal 2017 to $170.6 million or by 7.2% compared to 2016. This increase was due to the acquisition of Fishers, additional awarded healthcare volume from the Vancouver lower mainland contract, William Osler Health System volume, Trillium Health Partners volume, organic growth at existing customers, and new customers secured in existing markets.

EBITDA (see Terminology) decreased in 2017 to $24.0 million or by 14.7% compared to $28.1 million in 2016. The Corporation's EBITDA margin decreased from 17.7% in 2016 compared to 14.1% in 2017. The change in EBITDA and margin was primarily associated with one-time transaction costs of $2.8 million related to the acquisition of Fishers, the relocation of our new Toronto facility, offset by the efficiencies gained as a result of the capital expenditures made in Toronto. Management estimates the one-time costs incurred related to the Toronto transition and capacity constraints at certain plants on a year-to-date basis to be approximately $4.7 million.

Acquisition of Fishers

Fishers was acquired by K-Bro on November 27, 2017 for cash consideration of $57.6 million (in Sterling £33.9 million). Fishers, an operator of laundry and linen processing facilities established in 1900, is a leading commercial laundry business in Scotland and the North East of England which provides linen rental, workwear hire and cleanroom garment services to the hospitality, healthcare, manufacturing and pharmaceutical sectors. The company operates seven facilities, including one distribution center, which are located in Cupar, Perth, Newcastle, Livingston, Inverness and Coatbridge.

K-Bro 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 facility.

As part of the Fishers' acquisition, the purchase price included an earn out to be paid dependent upon financial performance of Fishers for the year ended December 31, 2017. Based off the Fishers' audited financial statements and the calculation in accordance with the share purchase agreement, no additional consideration for the earnout is payable as at December 31, 2017 or in future periods.

The acquired business contributed revenues of $4.7 million (in Sterling £2.8 million) and a net loss of $2.9 million (in Sterling £1.7 million) to the Corporation 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 profit for the year ended December 31, 2017 would have been $223.5 million and $8.8 million respectively. These amounts have been calculated using the Fishers 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 $1.0 million (in Sterling £0.6 million), and loss on disposal of assets of $1.1 million (in Sterling £0.6 million).

Equity Offerings

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 $55.0 million. 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.

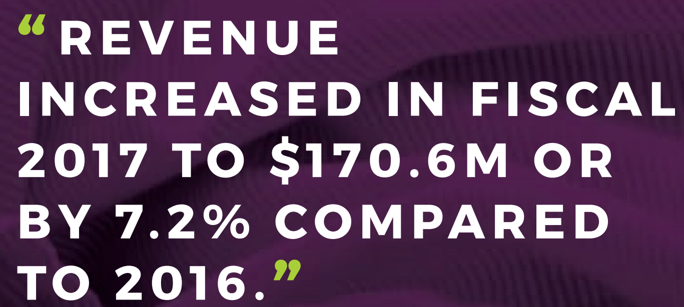
	2017
Build out of Corporation's facilities in Toronto and Vancouver	22.3
Repayment of indebtedness	32.4
General corporate purpose	0.3
Use of proceeds as at December 31, 2017	55.0
Amount remaining	–
Net proceeds from share issuance on April 25, 2017	**55.0**

($ Millions)

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 $32.7 million. The net proceeds of the offering were used to partially pay down indebtedness that was incurred under K-Bro's amended $100 million senior secured revolving credit facility to fund the acquisition of Fishers.

	2017
Cash Consideration of acquisition of Fishers	57.6
Indebtedness incurred to fund acquisition	(57.6)
Repayment of indebtedness	32.7
Use of proceeds as at December 31, 2017	32.7
Amount remaining	–
Net proceeds from share issuance on December 12, 2017	**32.7**

($ Millions)


“REVENUE INCREASED IN FISCAL 2017 TO $170.6M OR BY 7.2% COMPARED TO 2016.”

Revolving Credit Facility

On November 27, 2017, K-Bro completed an amendment to its existing revolving credit facility, which extended the agreement to July 31, 2021, and increased the available limit from $85 million to $100 million plus a $25 million accordion, of which $44.4 million is utilized (including letters of credit totaling $1.7 million as at December 31, 2017). 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. A copy of the Corporation's amended and restated credit agreement is available under the Corporation's profile at www.sedar.com.

Near-Term and Long-Term Growth and Margin Impact

Management has embarked on a 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 includes capital investments to build large efficient state-of-the-art facilities with meaningful additional capacity in Toronto and Vancouver. In addition, K-Bro will invest to upgrade one of its current Vancouver plants to create a more efficient facility with meaningful additional capacity.

These investments are being made because management believes that new opportunities, both current and future, justify the significant additional capacity. As previously announced we have secured $7.6 million of new revenue from William Osler Health Systems and Trillium Health Partners. The transition of the William Osler Health Systems to K-Bro was completed in the second quarter of 2017 and the transition of Trillium Health Partners to K-Bro commenced in the third quarter and was completed early in the fourth quarter of 2017. Management believes that many new customer opportunities will present themselves to K-Bro going forward.

Furthermore, during the prior year in Vancouver we re-signed most of our current healthcare volume through to 2027 and were awarded six new healthcare accounts representing an additional $5.2 million in annual revenue with additional new customer opportunities going forward. Service to these six new healthcare customers commenced during Q4 2017, which was earlier than anticipated to help facilitate the logistical management and strategic requirements of the customers.

The construction and/or upgrade of three of our large facilities will enable us to bid on a significant amount of additional business, but also will create margin pressure through 2018 as K-Bro incurs one-time and transition costs associated with these large investments. While the margin pressure may vary by quarter through 2018, management believes that the one-time and transition costs incurred in 2017 and 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 closer to those achieved in 2015 as it enters 2019.

Key events in our Toronto and Vancouver markets are summarized below.

Vancouver Facility Development

As announced on March 2, 2016, K-Bro has commenced the planning and development of a new state-of-the- art facility with a projected investment of up to $55 million. As at December 31, 2017, K-Bro has incurred $29.8 million of the total expected capital costs. The new Vancouver plant will be located in Burnaby, and K-Bro expects to transition to the new facility during the second quarter of 2018. The new facility will enable 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 will upgrade and replace equipment at one of its existing Vancouver-area facilities, which will be used to process the consolidated hospitality volume. K-Bro will not be renewing the lease for the remaining Vancouver-area facility and related assets will be transferred to the other K-Bro facilities. K-Bro believes it will achieve significant operating efficiencies at its new plant. It is anticipated that transition costs associated with the new Vancouver plant will negatively impact EBITDA margins over the second and third quarters of 2018 while the plant becomes operational.

Toronto Facility Development

During the first quarter, K-Bro completed the transition to its new state-of-the-art facility in Toronto. Management estimates that the cost to commission the new leased facility is $37 million for new efficiency enhancing equipment, and leaseholds. As at December 31, 2017, K-Bro has incurred $37 million of the total expected capital cost. K-Bro's strategy includes significant growth in its healthcare and hospitality volumes, and the additional capacity and the long-term lease enables K-Bro to grow into the additional capacity as opportunities emerge.

Toronto Contract Awards

On February 28, 2017 K-Bro was awarded a five year contract to provide laundry and linen services to St. Michael's Hospital. The contract contains two renewal options for an additional two years. The contract extends the existing relationship between K-Bro and St. Michaels Hospital and is a result of a competitive RFP process.

On March 24, 2017 K-Bro was awarded a contract to provide laundry and linen services to Trillium Health Partners. The new contract is for seven years with renewal options for an additional eight years, and is a result of a competitive RFP process. Expected additional annual revenue from the contract is $4 million and processing commenced in Q3 2017.

Toronto Collective Bargaining Agreement

Teamsters Canada represented 14 drivers in our Toronto facility. The Collective Bargaining Agreement representing these employees expired on December 31, 2016. The members of the bargaining unit rejected K-Bro's contract proposal and on January 31, 2017 K-Bro locked out the 14 Toronto drivers and employed replacement drivers to service its Toronto accounts. There have been no service interruptions to any customers as a result of the lock-out. In September, K-Bro reinstated five drivers on terms agreed to between the employee and employer. No collective agreement has been negotiated and employees are operating in a non-union environment on terms substantially the same as the contract drivers. K-Bro has been advised that the Ministry of Labour is closing the file regarding this labour dispute. Management estimates transition and one-time costs associated with this lock-out were approximately $0.6 million on a year-to-date basis.

Alberta Contract Awards

On March 1, 2018, 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.

OUTLOOK

"We are very excited to add the Fishers platform as K-Bro's first acquisition outside of Canada. Fisher's is our largest acquisition to date and is aligned with our growth strategy. Fishers provides us with critical mass in an attractive new geographical region and is well positioned for future growth." said Linda McCurdy, President & Chief Executive Officer of K-Bro. "The UK linen hospitality market is mature and highly fragmented and we expect to leverage Fishers' leading market position, experienced local management team, entrenched customer relationships and proven track record of stable and profitable operations to take advantage of the significant organic growth and consolidation opportunities available to us, similar to what we have achieved in Canada."

"We continue to make progress in the construction of our new Vancouver facility with a targeted completion date of early 2018. We view 2017 and 2018 as transition years that will impact our margins but once complete will enable us to realize additional efficiencies, increase capacity and increase market share. While the margin pressure may vary by quarter through 2018, 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 enters 2019. 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 66.1% of its revenues in the quarter were from large publicly funded healthcare customers which are geographically diversified across multiple provinces;
- at December 31, 2017, K-Bro had unutilized borrowing capacity of $55.6 million or 55.6% of its revolving credit facility available; and,
- K-Bro's prudent approach to managing capital has added cash flow and liquidity to the Corporation, thereby improving its ability to withstand the turmoil in the national and global capital markets.

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:

	CAN Q4 2017	UK Q4 2017	Q4 2017	Q4 2016[5]	CAN YTD 2017	UK YTD 2017	YTD 2017	YTD 2016[5]
GROWTH								
EBITDA[1] %	10.1		-29.6	5.3	-5.8		-14.7	4.4
Adjusted EBITDA[2] %	10.1		15.2	5.3	-5.8		-4.7	4.4
Revenue	9.0		21.0	4.2	4.2		7.2	10.1
Distributable cash flow %			-52.0	25.5			-9.2	3.4
PROFITABILITY								
EBITDA[1] [6]	6,961	(2,508)	4,453	6,321	26,493	(2,508)	23,985	28,131
EBITDA margin %	16.3	-53.0	9.4	16.1	16.0	-53.0	14.1	17.7
Adjusted EBITDA[2]	6,961	323	7,284	6,321	26,493	323	26,816	28,131
Adjusted EBITDA margin[2] %	16.3	6.8	15.3	16.1	16.0	6.8	15.7	17.7
Net earnings	1,594	(2,881)	(1,287)	2,197	8,599	(2,881)	5,718	11,527
Adjusted net earnings[3] %	1,594	(50)	1,544	2,197	8,599	(50)	8,549	11,527
STABILITY								
Debt to total capitalization[4] %			18.4	18.1			18.4	18.1
Unutilized line of credit			55,570	57,550			55,570	57,550
Cash on hand			11,276	–			11,276	–
Payout ratio %			107.1	41.7			55.5	43.5
Dividends declared per share			0.300	0.300			1.200	1.200
COST CONTAINMENT								
Wages and benefits %	41.7	37.4	41.3	41.1	41.4	37.4	41.2	40.9
Utilities %	5.7	7.7	5.9	6.4	6.0	7.7	6.1	6.1
Expenses included in EBITA %	83.7	153.0	90.6	83.9	84.0	153.0	85.9	82.3

($ Thousands, except percentages and per share amounts)

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 considering 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 Debt to total capitalization is defined as total debit divided by total capital. See Terminology.

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

6 EBITDA in prior periods has been restarted with 'gain (loss) on disposal of assets' in included expenses.

RESULTS OF OPERATIONS

QUARTERLY FINANCIAL INFORMATION - CONSOLIDATED

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

				2017				2016
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	**31,385**	**29,021**	**28,499**	**28,053**	**28,374**	**27,333**	**27,553**	**28,124**
Hospitality revenue	**16,124**	**14,577**	**11,995**	**10,905**	**10,877**	**14,224**	**11,916**	**10,688**
Total revenue	**47,509**	**43,598**	**40,494**	**38,958**	**39,251**	**41,557**	**39,469**	**38,812**
Expenses included in EBITDA[4]	43,056	35,487	33,837	34,194	32,930	34,019	31,973	32,036
EBITDA[1,4]	4,453	8,111	6,657	4,764	6,321	7,538	7,496	6,776
EBITDA as a % of revenue	9.4	18.6	16.4	12.2	16.1	18.1	19.0	17.5
Adjusted EBITDA[2]	7,284	8,111	6,693	4,764	6,321	7,538	7,496	6,776
Adjusted EBITDA as a % of revenue	15.3	18.6	16.5	12.2	16.1	18.1	19.0	17.5
Depreciation and amortization	4,105	3,213	3,246	2,809	2,866	2,748	2,674	2,737
Finance expense (recovery)	786	101	61	185	247	(11)	110	393
Earnings before income taxes	(438)	4,797	3,350	1,770	3,208	4,801	4,712	3,646
Income tax expense	849	1,379	1,013	520	1,011	1,387	1,328	1,114
Net earnings (loss)	(1,287)	3,418	2,337	1,250	2,197	3,414	3,384	2,532
Net earning (loss) as a % of revenue	-2.7	7.8	5.8	3.2	5.6	8.2	8.6	6.5
Basic earnings (loss) per share[2]	(0.132)	0.359	0.257	0.157	0.276	0.429	0.426	0.319
Diluted earnings (loss) per share[3]	(0.132)	0.358	0.256	0.156	0.274	0.427	0.425	0.318
Adjusted net earnings	1,544	3,418	2,337	1,250	2,197	3,414	3,384	2,532
Basic adjusted earnings (loss) per share	0.159	0.359	0.257	0.157	0.276	0.429	0.426	0.319
Diluted adjusted earnings (loss) per share[3]	0.158	0.358	0.256	0.156	0.274	0.427	0.425	0.318
Total assets	295,213	199,452	195,957	180,583	168,289	153,923	148,068	146,816
Total long-term financial liabilities	57,594	9,205	8,407	41,134	33,949	17,596	14,360	12,717
Funds provided by operations	6,395	3,788	2,297	6,300	6,071	7,581	4,143	6,726
Long-term debt	42,780	-	-	32,363	25,800	10,338	7,252	5,970
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300

($ Thousands, except percentages and per share amounts)

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 EBITDA in prior periods has been restated with 'gain (loss) on disposal of assets' in included expenses.

$170.559 MILLION

2017 REVENUE

HEALTHCARE	HOSPITALITY
$116.958	$53.601

(In Millions)

$159.089 MILLION

2016 REVENUE

HEALTHCARE	HOSPITALITY
$111.384	$47.705

(In Millions)

Historically, the Corporation's financial and operating results 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.

For the year ended December 31, 2017, the Corporation's distributable cash flow was $20 million with a debt to total capitalization of 18.4% Due to the strategic plans K-Bro expects to execute in the coming fiscal year, management expects the debt to total capitalization to increase, mainly as a result of strategic capital expenditures as part of the investment in the new Vancouver facility. Management believes the unutilized balance of $55.6 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.

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:

				2017				2016
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	31,375	29,021	28,499	28,053	28,374	27,333	27,553	28,124
Hospitality revenue	11,406	14,577	11,995	10,905	10,877	14,224	11,916	10,688
Total revenue	42,781	43,598	40,494	38,958	39,251	41,557	39,469	38,812
Expenses included in EBITDA[4]	35,820	35,487	33,837	34,194	32,930	34,019	31,973	32,036
EBITDA[1 4]	6,961	8,111	6,657	4,764	6,321	7,538	7,496	6,776
EBITDA as a % of revenue (EBITDA margin)	16.3	18.6	16.4	12.2	16.1	18.1	19.0	17.5
Adjusted EBITDA[2]	6,961	8,111	6,693	4,764	6,321	7,538	7,496	6,776
Adjusted EBITDA as a % of revenue (Adjusted EBITDA margin)	16.3	18.6	16.5	12.2	16.1	18.1	19.0	17.5
Depreciation and amortization	3,708	3,213	3,246	2,809	2,866	2,748	2,674	2,737
Finance expense (recovery)	768	101	61	185	247	(11)	110	393
Earnings before income taxes	2,485	4,797	3,350	1,770	3,208	4,801	4,712	3,646
Income tax expense	891	1,379	1,013	520	1,011	1,387	1,328	1,114
Net earnings	1,594	3,418	2,337	1,250	2,197	3,414	3,384	2,532
Net earning as a % of revenue	3.7	7.8	5.8	3.2	5.6	8.2	8.6	6.5
Basic earnings per share	0.164	0.359	0.257	0.157	0.276	0.429	0.426	0.319
Diluted earnings per share	0.163	0.358	0.256	0.156	0.274	0.427	0.425	0.318
Adjusted net earnings	1,594	3,418	2,337	1,250	2,197	3,414	3,384	2,532
Basic adjusted earnings per share	0.164	0.359	0.257	0.157	0.276	0.429	0.426	0.319
Diluted adjusted earnings per share	0.163	0.358	0.256	0.156	0.274	0.427	0.425	0.318

($ Thousands, except percentages and per share amounts)

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.

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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 EBITDA in prior periods has been restated with 'gain (loss) on disposal of assets' in included expenses.

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:

	2017				2016			
In reporting currency Canadian $	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	10							
Hospitality revenue	4,718							
Total revenue	4,728							
Expenses included in EBITDA	7,236							
EBITDA[1]	(2,508)							
(EBITDA margin)	-53.0							
Adjusted EBITDA[2]	323							
Adjusted EBITDA as a % of revenue (Adjusted EBITDA margin)	6.8							
Depreciation and amortization	397							
Finance expense (recovery)	18							
Earnings before income taxes	(2,923)							
Income tax expense	(42)							
Net earnings	(2,881)							
Net earning as a % of revenue	-60.9							
Basic earnings per share	(0.296)							
Diluted earnings per share	(0.295)							
Adjusted net earnings[3]	(50)							
Basic adjusted earnings per share[3]	(0.005)							
Diluted adjusted earnings per share[3]	(0.005)							

($ Thousands, except Percentages and per share Amounts)

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 EBITDA in prior periods has been restated with 'gain (loss) on disposal of assets' in included expenses.

In local currency sterling £	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1
Healthcare revenue	**6**							
Hospitality revenue	**2,755**							
Total revenue	**2,761**							
Expenses included in EBITDA	4,227							
EBITDA[1]	(1,466)							
(EBITDA margin)	-53.1							
Adjusted EBITDA [2]	188							
Adjusted EBITDA as a % of revenue (Adjusted EBITDA margin)	6.8							
Depreciation and amortization	232							
Finance expense (recovery)	(3)							
Earnings before income taxes	(1,695)							
Income tax expense	(25)							
Net earnings	(1,670)							
Net earning as a % of revenue	-60.5							
Basic earnings per share	(0.172)							
Diluted earnings per share	(0.171)							
Adjusted net earnings [3]	(16)							
Basic adjusted earnings per share [3]	(0.002)							
Diluted adjusted earnings per share [3]	(0.002)							

($ Thousands, except Percentages and per share Amounts)

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.

REVENUE, EARNINGS & EBITDA

For the year ended December 31, 2017, K-Bro's revenue increased by 7.2% to $170.6 million from $159.1 million in the comparative period. This increase was due to additional volume from the acquisition of Fishers, additional awarded healthcare volume from the Vancouver lower mainland contract signed in 2016, William Osler Health System volume, Trillium Health Partners volume, organic growth at existing customers, and new customers secured in existing markets. In 2017, approximately 68.6% of K-Bro's revenue was generated from healthcare institutions, which is slightly lower compared to 70.0% in 2016, primarily related to the acquisition of Fishers which is hospitality based.

EBITDA decreased in the year to $24.0 million from $28.1 million in 2016, which is a decrease of 14.7%. The EBITDA margin decreased to 14.1% in 2017 compared to 17.7% in 2016, due to transaction costs related to the acquisition of Fishers, transition costs related to the transition to our new Toronto facility, training costs related to new staff, labour costs associated transitioning volume in Vancouver during Q4 2017 and costs related to mitigating the effect related to the lock-out of the unionized delivery drivers in Toronto, offset by higher revenues. In addition, throughout 2017 the company incurred significant overtime and one-time costs to support new business, strong volumes and temporary capacity constraints in certain markets that we operate in.

Net earnings decreased by $5.8 million from $11.5 million in 2016 to $5.7 million in 2017. Net earnings as a percentage of revenue decreased by 3.8%, from 7.2% in 2016 to 3.4% in 2017. This decrease in net earnings is primarily due to the flow through items in EBITDA discussed above and higher depreciation of property, plant and equipment and interest expense, offset by a lower income tax expense.

OPERATING EXPENSES

Wages and benefits increased to $70.4 million in 2017 from $65.1 million in 2016, and increased as a percentage of revenue from 40.9% in 2016 to 41.2% in the same period of 2017. The increase in the period is due to the incremental labour required to process the increased volumes, significant overtime costs and one-time costs to support new business, strong volumes and temporary capacity constraints in certain of our markets as well as one-time transition costs associated with the Toronto facility move and rising labour costs from incremental increases in the wage rate. Wages and benefits include $1.8 million related to the incremental volume processed as a result of the acquisition of Fishers.

Linen expenses increased to $19.0 million in 2017 from $17.5 million in 2016, and increased as a percentage of revenue to 11.1% from 11.0% in 2016. The increase is a result of increased healthcare volumes from new customers. Linen expenses include $0.6 million related to the incremental volume processed as a result of the acquisition of Fishers.

Utility costs increased to $10.4 million compared to $9.8 million in 2016 and remained constant as a percentage of revenue at 6.1%. The increase is primarily due to the incremental volume processed, the transition to the new Toronto facility, the new carbon levy in Ontario and Alberta, offset by improved efficiencies in the new Toronto facility. Utility costs include $0.4 million related to the incremental volume processed as a result of the acquisition of Fishers.

Delivery costs increased to $18.3 million and to 10.7% as a percentage of revenues compared to $16.0 million and 10.0% in 2016. The increase is a result of increased business activity, higher cost of diesel, transition costs related to the new Toronto facility and temporary costs to mitigate the effects related to the lock-out of the Toronto unionized delivery drivers. Delivery costs include $1.0 million related to the incremental volume processed as a result of the acquisition of Fishers.

Occupancy costs increased to $6.5 million and to 3.8% as a percentage of revenue, compared to $5.3 million and 3.3% in 2016. This increase is a result of the new Toronto facility and additional warehousing costs to address the temporary storage requirements related to the additional volume from the Vancouver lower mainland contract. Occupancy costs include $0.2 million related to the incremental volume processed as a result of the acquisition of Fishers.

Materials and supplies increased to $5.5 million and to 3.2% as a percentage of revenue, compared to $4.8 million and 3.0% in 2016, due to higher costs associated with the move to the new Toronto facility and to support the increased volumes in certain markets. Materials and supplies include $0.2 million related to the incremental volume processed as a result of the acquisition of Fishers.

Repairs and maintenance increased to $5.6 million and to 3.3% as a percentage of revenues, compared to $4.9 million and 3.1% in 2016, primarily related to the timing of scheduled maintenance activities. Repairs and maintenance include $0.2 million related to the incremental volume processed as a result of the acquisition of Fishers.

Corporate costs increased to $10.9 million and to 6.4% as a percentage of revenues compared to $7.5 million and 4.7% in 2016, primarily due to the timing of costs and initiatives to support the Corporation's growth and business strategies across the plants. Corporate costs include an additional $3.0 million related to the acquisition of Fishers of which $2.8 million are transaction related costs and $0.2 million relates to the ongoing operations of Fishers.

Depreciation of property, plant and equipment and amortization of intangible assets represents the expense related to the appropriate matching of certain of K-Bro's 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 facility 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 2017 cash generated by operating activities was $18.8 million, compared to $24.5 million during 2016. The change in cash from operations is primarily due to the change in working capital items driven mainly from the timing of business activity and payments related to capital commitments.

During 2017, cash generated by financing activities was $93.8 million compared to $13.8 million in 2016. Financing activities in 2017 consisted of net proceeds from the revolving credit facility, $87.7 million net proceeds from issuance of Common Shares, offset by net repayment to the revolving credit facility, and dividends paid to Shareholders.

During 2017, cash used in investing activities was $101.3 million compared to $38.4 million in 2016. Investing activities related primarily to the acquisition of Fishers, purchase of plant equipment for the new Vancouver plant, cash settlement of plant equipment for the new Toronto plant, 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:

	PAYMENTS DUE BY PERIOD				
	Total	**< 1 Year**	**1-3 Years**	**4-5 Years**	**> 5 Years**
Long-term debt	42,780	-	42,780	-	-
Operating lease commitments	68,276	9,588	15,379	11,115	32,194
Utility commitments	9,676	5,827	2,575	1,274	-
Linen purchase obligations	10,232	10,232	-	-	-
Property, plant and equipment commitments	28,748	28,748	-	-	-

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

	2017	**2016**
Cash and cash equivalents	(11,276)	-
Long-term debt	42,780	25,800
Shareholders' equity	201,587	116,672
Total capitalization	233,091	142,472
Debt to total capitalization % *(see Terminology for definition)*	18.4	18.1

For the year ended December 31, 2017, the Corporation had a debt to total capitalization ratio of 18.4%, unused borrowing capacity of $55.6 million and has not incurred any events of default under the terms of its credit agreement.

As at December 31, 2017, the Corporation had net working capital of $32.0 million compared to its working capital position of $13.8 million at December 31, 2016. The increase in working capital is primarily attributable to timing differences related in the cash settlement of new plant equipment, and deposits related to the acquisition of equipment related across the plants.

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 Common 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	2017 AMOUNT PER SHARE	2017 TOTAL AMOUNT[1234]	2016 AMOUNT PER SHARE	2016 TOTAL AMOUNT[567]
January	February 15	8,023,480	0.10000	802	0.10000	799
February	March 15	8,023,480	0.10000	802	0.10000	799
March	April 13	8,023,480	0.10000	802	0.10000	799
Q1			**0.30000**	**2,407**	**0.30000**	**2,396**
April	May 15	9,541,480	0.10000	954	0.10000	799
May	June 15	9,583,902	0.10000	958	0.10000	802
June	July 14	9,583,902	0.10000	958	0.10000	802
Q2			**0.30000**	**2,871**	**0.30000**	**2,403**
July	August 15	9,583,902	0.10000	958	0.10000	802
August	September 15	9,583,902	0.10000	958	0.10000	802
September	October 13	9,583,902	0.10000	958	0.10000	802
Q3			**0.30000**	**2,875**	**0.30000**	**2,407**
October	November 15	9,583,902	0.10000	958	0.10000	802
November	December 15	9,583,902	0.10000	958	0.10000	802
December	January 15	10,508,502	0.10000	1,501	0.10000	802
Q4			**0.30000**	**2,968**	**0.30000**	**2,407**
YTD			**1.20000**	**11,121**	**1.20000**	**9,613**

1 The total amount of dividends paid 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 paid for the quarterly period.

2 The total amount of dividends paid 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 paid for the quarterly period.

3 The total amount of dividends paid 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 paid in Q3.

4 The total amount of dividends paid 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 paid in Q4.

5 The total amount of dividends paid was $0.10000 per share for a total of $798,571 per month for January - March 2016; when rounded in thousands, $2,396 of dividends were paid for the quarterly period.

6 The total amount of dividends paid was $0.10000 per share for a total of $798,571 for April 2016, $802,348 for May 2016, and $802,348 for June 2016. When rounded in thousands, $2,403 of dividends were paid for the quarterly period.

7 The total amount of dividends paid was $0.10000 per share for a total of $802,348 per month for July - September 2016; when rounded in thousands, $2,407 of dividends were paid in Q3 and Q4.

For the three months ended December 31, 2017, the Corporation declared a $0.300 per Common Share dividend compared to $0.284 per Common Share of Distributable Cash Flow (see Terminology). The payout ratio for the three months ended December 31, 2017 was 107.1%

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:

				2017				2016
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash provided by operating activities	6,395	3,788	2,297	6,300	6,071	7,581	4,143	6,726
Deduct (add):								
Net changes in non-cash working capital items[1]	2,942	(3,917)	(4,161)	1,214	(336)	1,102	(2,625)	665
Share-based compensation	333	276	494	405	368	337	330	483
Maintenance capital expenditures [2]	349	192	427	179	264	289	1,270	293
Distribution cash flow	2,771	7,237	5,537	4,502	5,775	5,853	5,168	5,285
Dividends declared	2,968	2,875	2,871	2,407	2,407	2,407	2,403	2,396
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300
Payout ratio [3] %	107.1	39.7	51.8	53.5	41.7	41.1	46.5	45.3
Weighted average shares outstanding during the period, basic	9,718	9,511	9,104	7,979	7,965	7,957	7,952	7,946
Weighted average shares outstanding during period, diluted	9,755	9,548	9,133	7,999	8,004	7,991	7,965	7,965
Trailing-twelve months ("TTM")								
Distributable cash flow	20,047	23,051	21,667	21,298	22,081	20,908	21,426	21,731
Dividends	11,121	10,560	10,092	9,624	9,613	9,602	9,591	9,579
Payout ratio [3] %	55.5	45.8	46.6	45.2	43.5	45.9	44.8	44.1

($ Thousands, except percentages and per share amounts)

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, 2017, the Corporation had 10,508,502 Common Shares outstanding. Basic and diluted weighted average number of Common Shares outstanding for 2017 were 9,083,693 and 9,114,874, respectively, (7,955,026 and 7,986,729, respectively, for the comparative 2016 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 2016 fiscal year, on April 21, 2017 the Compensation, Nominating and Corporate Governance Committee of the Board of Directors approved LTI compensation of $1.7 million (2016 – $1.6 million) to be paid as Common Shares issued from treasury. As at December 31, 2017, the value of the Common Shares held in trust by the LTI trustee was $2.3 million (December 31, 2016 – $1.9 million) which was comprised of 54,880 in unvested Common Shares (December 31, 2016 – 44,634) with a nil aggregate cost (December 31, 2016 – $nil).

As at March 14, 2018 there were 10,508,502 Common Shares issued and outstanding including 54,880 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, 2017, the Corporation incurred fees totaling $138,000 (2016– $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;
- 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.

Intangible Assets

The Corporation accounts for intangible assets and goodwill in accordance with IFRS 3, Business Combinations and IAS 38, Intangible Assets. In a business combination, K-Bro may acquire the assets and assume certain liabilities of an acquired entity. The allocation of the purchase price for these transactions involves judgment in determining the fair values assigned to the tangible and intangible assets acquired and the liabilities assumed on the acquisition. The determination of these fair values involves a variety of assumptions, including revenue growth rates, expected operating income, discount rates, and earnings multiples. If K-Bro's estimates or assumptions change prior to finalizing the purchase price allocation for a transaction, a revision to the purchase price allocation or the carrying value of the related assets and liabilities acquired may impact our net income in future periods.

At the date of the acquisition, K-Bro must estimate the value of acquired intangible assets that do not have a well-defined market value, such as the value of customer lists and relationships and non-competition agreements.

Valuing these assets involves estimates of the future net benefit to K-Bro and the useful life of such benefits and is based upon various internal and external factors. A change in those estimates could cause a material change to the value of the intangible assets.

Although intangible assets are amortized over their useful life, if the estimated value of an intangible asset has declined below its amortized book value, a write-down would be recorded in the period in which the event causing the decline in value occurred, which would increase amortization expense and decrease the intangible assets balance.

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. 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. At this time, K-Bro does not believe any intangible assets have a book value in excess of their fair market value.

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.

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

We report on our EBITDA (Earnings before interest, taxes, depreciation and amortization) because it is a key measure used by management to evaluate performance. EBITDA is utilized in measuring compliance with debt covenants and in making decisions relating to dividends to Shareholders. We believe EBITDA assists investors in assessing 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.

	3 MTHS ENDED DECEMBER 31		YEARS ENDED DECEMBER 31	
	2017	**2016**	**2017**	**2016**
Net earnings (loss)	(1,287)	2,197	5,718	11,527
Add				
Income tax expense	849	1,011	3,761	4,840
Finance expense	786	247	1,133	739
Depreciation of property, plant and equipment	3,543	2,438	11,606	9,235
Amortization of intangible	562	428	1,767	1,790
EBITDA	**4,453**	**6,321**	**23,985**	**28,131**

($ Thousands of CDN)

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, and the related impact on EBITDA (as defined above). During the fourth quarter in 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 Toronto plant transition, capacity constraints and the Toronto driver lock-out have not been adjusted for in the table below.

	CAN	UK	3 MTHS ENDED DECEMBER 31	
	2017	**2017**	**2017**	**2016**
EBITDA	6,961	(2,508)	4,453	6,321
Add: Transaction costs incurred in the acquisition of Fishers	-	2,831	2,831	-
Adjusted EBITDA	**6,961**	**323**	**7,284**	**6,321**

	CAN	UK	YEARS END DECEMBER	
	2017	**2017**	**2017**	**2016**
EBITDA	26,493	(2,508)	23,985	28,131
Add: Transaction costs incurred in the acquisition of Fishers	-	2,831	2,831	-
Adjusted EBITDA	**26,493**	**323**	**26,816**	**28,131**

($ Thousands CDN)

ADJUSTED NET EARNINGS & 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.

	CAN	UK			CAN	UK		
	2017	**2017**	**2017**	**2016**	**2017**	**2017**	**2017**	**2016**
Net earnings (loss)	1,594	(2,881)	(1,287)	2,197	8,599	(2,881)	5,718	11,527
Add (net of corporate income taxes):								
Transaction costs incurred in the acquisition of Fishers	-	2,831	2,831	-	-	2,831	2,831	-
Adjusted net earnings	**1,594**	**(50)**	**1,544**	**2,197**	**8,599**	**(50)**	**8,549**	**11,527**
Weighted average number of shares outstanding:								
Basic	9,717,890	9,717,890	9,717,890	7,964,645	9,083,693	9,083,693	9,083,693	7,955,026
Diluted	9,755,183	9,755,183	9,755,183	8,003,999	9,114,874	9,114,874	9,114,874	7,986,729
Adjusted net earnings per share:								
Basic	0.164	(0.005)	0.159	0.276	0.947	(0.006)	0.941	1.449
Diluted	0.163	(0.005)	0.158	0.274	0.943	(0.005)	0.938	1.443

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, 2017, the Corporation has not entered into any off balance sheet arrangements.

CHANGES IN ACCOUNTING POLICIES

The Corporation has prepared its December 31, 2017 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

The following standard has been issued but has not yet been applied in preparing the consolidated financial statements.

- 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 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The new standard introduces expanded disclosure requirements. The Corporation has undertaken a detailed review of contracts entered with key customers and other forms of agreements with customers and has evaluated the provisions under the five-step model specified by the new guidance. In addition, the Corporation continues to monitor additional interpretive guidance related to the new standard as it becomes available, as well as comparing the conclusions made on specific interpretative issues to other peers in the packaging industry, to the extent that such information is available. The standard will be implemented by the Corporation in 2018. The Corporation expects the new revenue recognition guidance will not have a material impact on the consolidated financial statements. The Corporation currently intends to select the modified retrospective approach with results in the cumulative effect of adoption recognized at the date of initial application at January 1, 2018.

- 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 prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation has determined the adoption of the standard will not have a material impact to 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 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Corporation is in the process of evaluating the impact that IFRS 16 may have on the financial statements. The standard will affect primarily the accounting for the Corporation's operating leases. The Corporation has not yet determined to what extent these commitments will result in the recognition of assets and liabilities for future payments and how this will affect EBITDA, net earnings and classification of cash flows.

- 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 has determined the adoption of the standard will not have a material impact to the consolidated financial statements.

FINANCIAL INSTRUMENTS

K-Bro's financial instruments at December 31, 2017 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. Financial assets are either classified as available for sale, held to maturity, trading or loans and receivables. Financial liabilities are recorded at amortized cost. Initially, all financial assets and financial liabilities must be recorded on the balance sheet at fair value. Subsequent measurement is determined by the classification of each financial asset and liability. Unrealized gains and losses on financial assets that are held as available for sale are recorded in other comprehensive income until realized, at which time they are recorded in the consolidated statement of earnings. All derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value in the consolidated balance sheet. Transaction costs related to financial instruments are capitalized and then amortized over the expected life of the financial instrument using the effective interest method.

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 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, 2017. 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, 2017, there are no material changes in the Corporation's risks or risk management activities since December 31, 2016. The Corporation's results of operations, business prospects, financial condition, cash dividends to Shareholders and the trading price of the Corporation's Common 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 under the Corporation's profile 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 & 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, 2017, 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, 2017 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, 2017, subject to the limitation on scope of design as discussed below, 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.

LIMITATION ON SCOPE OF DESIGN

K-Bro has limited the scope of design of DCP and our Internal Controls over Financial Reporting (ICFR) to exclude controls, policies and procedures of Fishers acquired on November 27, 2017. The scope limitation is in accordance with section 3.3(1)(b) of NI 52-109 which allows an issuer to limit its design of ICFR to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days before the end of the fiscal period.

FISHERS	AS AT DEC 31, 2017
Current assets	27.9
Non-current assets	42.0
Current liabilities	11.3
Non-current liabilities	4.0

(Millions)

FISHERS	YEAR ENDED DEC 31, 2017
Revenue	4.7
Expense	(7.6)
Income from operations	(2.9)

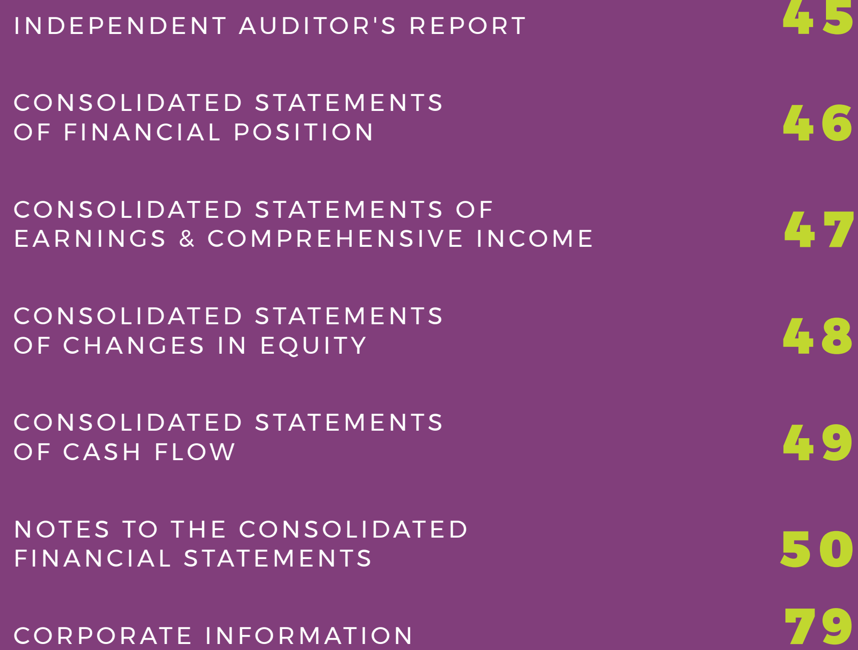
(Millions)

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 »).

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DEC 31, 2017



INDEPENDENT AUDITOR'S REPORT 45

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION 46

CONSOLIDATED STATEMENTS OF EARNINGS & COMPREHENSIVE INCOME 47

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY 48

CONSOLIDATED STATEMENTS OF CASH FLOW 49

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 50

CORPORATE INFORMATION 79

MARCH 14, 2018

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF K-BRO LINEN INC.

We have audited the accompanying consolidated financial statements of K-Bro Linen Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of K-Bro Linen Inc. and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

CHARTERED PROFESSIONAL ACCOUNTANTS

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	DEC 31, 2017	DEC 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	11,276	-
Accounts receivable	29,718	18,451
Income tax receivable	2,281	-
Prepaid expenses and deposits	3,309	1,472
Linen in service (note 7)	21,456	11,511
	68,040	**31,434**
Property, plant and equipment (note 8)	171,668	113,258
Intangible assets (note 9)	16,979	3,141
Goodwill (note 10)	38,526	20,456
	295,213	**168,289**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	34,143	16,270
Income taxes payable	838	596
Dividends payable to shareholders	1,051	802
	36,032	17,668
Long-term debt (note 12)	42,780	25,800
Unamortized lease and inducements (note 14)	2,583	1,863
Provisions (note 11)	2,393	-
Deferred income taxes (note 15)	9,838	6,286
	93,626	**51,617**
SHAREHOLDERS' EQUITY		
Share capital	199,772	109,390
Contributed surplus	1,952	1,944
Retained earnings (deficit)	(65)	5,338
Accumulated other comprehensive loss	(72)	-
	201,587	**116,672**
Contingencies and commitments (note 16)	**295,213**	**168,289**

(Thousands of Canadian dollars)

Approved by the Board of Directors

ROSS S. SMITH, DIRECTOR

MATTHEW HILLS, DIRECTOR

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

CONSOLIDATED STATEMENTS OF EARNINGS & COMPREHENSIVE INCOME

Years ended December 31	2017	2016
REVENUE	**170,559**	**159,089**
Expenses		
Wages and benefits (note 27)	70,352	65,075
Linen (note 7)	18,998	17,547
Utilities	10,393	9,776
Delivery (note 27)	18,292	15,965
Occupancy costs	6,460	5,313
Materials and supplies	5,537	4,808
Repairs and maintenance	5,627	4,855
Corporate	10,879	7,514
Loss on disposal of property, plant and equipment (note 28)	36	105
	146,574	**130,958**
EBITDA (note 28)	**23,985**	**28,131**
Other expenses		
Depreciation of property, plant and equipment (note 8)	11,606	9,235
Amortization of intangible assets (note 9)	1,767	1,790
Finance expense (note 13)	1,133	739
	14,506	11,764
Earnings before income taxes	9,479	16,367
Current income tax expense	2,137	4,467
Deferred income tax expense	1,624	373
Income tax expense	**3,761**	**4,840**
Net earnings	**5,718**	**11,527**
Other comprehensive loss		
Item that may be subsequently reclassified to earnings:		
Foreign currency translation differences on foreign operations	(72)	-
Total comprehensive income	**5,646**	**11,527**
Net earnings per share (note 18)		
Basic	0.63	1.45
Diluted	0.63	1.44
Weighted average number of shares outstanding:		
Basic	9,083,693	7,955,026
Diluted	9,114,874	7,986,729

($ Thousands of Canadian dollars, except share and per share amounts)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	TOTAL SHARE CAPITAL	CONTRIBUTED SURPLUS	RETAINED EARNINGS (DEFICIT)	ACCUMULATED OTHER COMPREHENSIVE 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**

(Thousands of Canadian dollars)

	TOTAL SHARE CAPITAL	CONTRIBUTED SURPLUS	RETAINED EARNINGS (DEFICIT)	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL EQUITY
As at January 1, 2016	**108,079**	**1,737**	**3,424**	**-**	**113,240**
Total comprehensive income	-	-	11,527	-	11,527
Dividends declared (note 20)	-	-	(9,613)	-	(9,613)
Employee share based compensation expense	-	1,518	-	-	1,518
Shares vested during the year	1,311	(1,311)	-	-	-
As at December 31, 2016	**109,390**	**1,944**	**5,338**	**-**	**116,672**

($ Thousands of Canadian dollars)

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

CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended December 31	2017	2016
OPERATING ACTIVITIES		
Net Earnings	**5,718**	**11,527**
Depreciation of property, plant and equipment (note 8)	11,606	9,235
Amortization of intangible assets (note 7)	1,767	1,790
Lease inducements, net of amortization	401	1,167
Accretion expense	42	-
Employee share based compensation expense	1,508	1,518
Loss on disposal of property, plant and equipment	36	105
Deferred income taxes	1,624	373
	22,702	**25,715**
Change in non-cash working capital items (note 21)	(3,922)	(1,194)
Cash provided by operating activities	18,780	24,521
FINANCING ACTIVITIES		
Net proceeds of revolving debt	16,980	23,451
Net proceeds from issuance of common shares (note 17)	87,655	-
Dividends paid to shareholders	(10,872)	(9,610)
Cash used in financing activities	93,763	13,841
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (note 8)	(44,494)	(38,367)
Proceeds from disposal of property, plant and equipment	-	5
Acquisition of business (note 6)	(56,774)	
Cash provided by financing activities	(101,268)	(38,362)
Change in cash and cash equivalents during the year	11,275	-
Effect of exchanges on cash	1	-
Cash and cash equivalents, beginning of year	11,276	-
Supplementary cash flow information		
Interest paid	703	631
Income taxes paid	5,000	4,062

($ Thousands of Canadian dollars)

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, 2017 and 2016)

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 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, healthcare, 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 seven 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 14, 2018.

1. BASIS OF PRESENTATION

The consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (IFRS) as published in the CPA Canada Handbook. 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 trust (note 2(q) (ii)). 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

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 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
Building	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. Impairment of Financial Assets

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 or indirectly through the use of an allowance account.

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.

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. 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.

J. 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.

K. 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.

L. 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.

M. Volume Rebates

The Corporation earns revenue from linen management and laundry services based on written service agreements whereby K-Bro has agreed to collect, launder, deliver and replenish linens. K-Bro recognizes revenue in the period in which the services are provided. Volume rebates, where applicable, are recorded based on annualized expected volumes 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.

N. 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 (notes 2(q)(ii)).

O. 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.

i. 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.

ii. 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 (loss).

P. 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.

Q. Employee Benefits

i. 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.

ii. 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"). 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 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.

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 Trustee 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 trustee 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 trustee 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.

R. Financial Instruments

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.

3. SIGNIFICANT ACCOUNTING POLICIES

On January 1, 2017 the Corporation adopted the amendments to IAS 7, Statement of Cash Flows, and amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses. IAS 7 was amended to improve information provided to users of financial statements about an entity's financing activities. IAS 12 was amended to provide further clarity and examples in the practice around the recognition of a deferred tax asset that is related to a debt instrument measured at fair value. Adoption of the amendments did not result in any changes to the presentation or disclosures in the financial statements.

On October 1, 2017 the Corporation adopted a policy to account for asset retirement obligations to restore the premises of its leased plants. Previously the effect of applying this policy was immaterial. The present value of the obligation is recognized in the period in which the obligations are incurred. The estimated present value of the obligation is the discounted expected future cash flows to settle the obligation at a pre-tax risk free interest rate that reflects current market assessments of the time value of money. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over the life of the lease or estimated life of the asset, whichever is shorter. In subsequent periods, the asset retirement obligation is adjusted for the passage of time through accretion expense, which is recognized as a finance cost and for changes in the amount or timing of the underlying future cash flows. Changes in the estimated future costs or in the discount rate applied are added to, or deducted from, the cost of the asset. Actual expenditures are charged against the provision when incurred with any difference between actual and estimated costs recorded in net earnings.

4. NEW STANDARDS & INTERPRETATIONS NOT YET ADOPTED

The following standards have been issued but have not yet been applied in preparing the interim condensed consolidated financial statements.

- 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 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The new standard introduces expanded disclosure requirements. The Corporation has undertaken a detailed review of contracts entered with key customers and other forms of agreements with customers and has evaluated the provisions under the five-step model specified by the new guidance. In addition, the Corporation continues to monitor additional interpretive guidance related to the new standard as it becomes available, as well as comparing the conclusions made on specific interpretative issues to other peers in the industry, to the extent that such information is available. The standard will be implemented by the Corporation in 2018. The Corporation expects the new revenue recognition guidance will not have a material impact on the consolidated financial statements other than additional disclosure requirements. The Corporation currently intends to select the modified retrospective approach with results in the cumulative effect of adoption recognized at the date of initial application at January 1, 2018.

- 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 prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation has determined the adoption of the standard will not have a material impact to 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 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Corporation is in the process of evaluating the impact that IFRS 16 may have on the financial statements. The standard will affect primarily the accounting for the Corporation's operating leases. The Corporation has not yet determined to what extent these commitments will result in the recognition of assets and liabilities for future payments and how this will affect EBITDA, net earnings and classification of cash flows.

- 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 has determined the adoption of the standard will not have a material impact to the consolidated financial statements.

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. Refer to note 10 for more details about methods and assumptions used in estimating net recoverable amount.

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

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 £[1]	2017 IN CAN $
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**

(In Thousands)

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, all of which are expected to be collectible.

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

	2017	2016
Balance, beginning of year	11,511	11,279
Acquisition of business	7,234	
Additions	21,718	17,779
Amortization charge	(18,998)	(17,547)
Effect of movement in charge	(9)	-
Balance, end of year	**21,456**	**11,511**

8. PROPERTY, PLANT & EQUIPMENT

	LAND	BUILDINGS	LAUNDRY EQUIP[1]	OFFICE EQUIP	DELIVERY EQUIP	COMPUTER EQUIP	LEASEHOLD IMPROVEMENTS[2]	SPARE PARTS	TOTAL
YEAR ENDED, DECEMBER 31, 2016									
Opening net book amount	2,454	17,964	54,316	341	266	539	11,834	427	88,141
Additions	-	281	21,464	71	60	208	12,242	136	34,462
Disposals	-	-	(107)	-	(3)	-	-	-	(110)
Depreciation charge	-	(980)	(6,056)	(108)	(73)	(370)	(1,648)	-	(9,235)
Closing net book amount	**2,454**	**17,265**	**69,617**	**304**	**250**	**377**	**22,428**	**563**	**113,258**
AT DECEMBER 31, 2016									
Cost	2,454	19,012	110,175	710	683	1,279	32,065	563	166,941
Accumulated depreciation	-	(1,747)	(40,558)	(406)	(433)	(902)	(9,637)	-	(53,683)
Net book amount	**2,424**	**17,265**	**69,617**	**304**	**250**	**377**	**22,428**	**563**	**113,258**
YEAR ENDED, DECEMBER 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
Acquisitions 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	236,051
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**

1 Included in laundry equipment are assets under development in the amount of $23,625 (2016 - $16,536). 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 $8,251 (2016 - $11,547). 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 $5,799 (2016 - $1,721).

4 2017 Additions include amounts from the Canadian Division of $50,387 and from the UK Division of $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.

9. INTANGIBLE ASSETS

	HEALTHCARE RELATIONSHIPS	HOSPITALITY RELATIONSHIP	COMPUTER SOFTWARE	BRAND	TOTAL
YEAR ENDED, DECEMBER 31, 2016					
Open net book amount	3,550	1,381	-	-	4,931
Additions	-	-	-	-	-
Amortization charge	(1,043)	(747)	-	-	(1,790)
Closing net book amount	**2,507**	**634**	**-**	**-**	**3,141**
At December 31, 2016					
Cost	19,200	8,550	927	-	28,677
Accumulated amortization	(16,693)	(7,916)	(927)	-	(25,536)
Net book amount	**2,507**	**634**	**-**	**-**	**3,141**
YEAR ENDED, DECEMBER 31, 2017					
Opening net book amount	2,507	634	-	-	3,141
Additions	-	-	-	-	-
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**

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

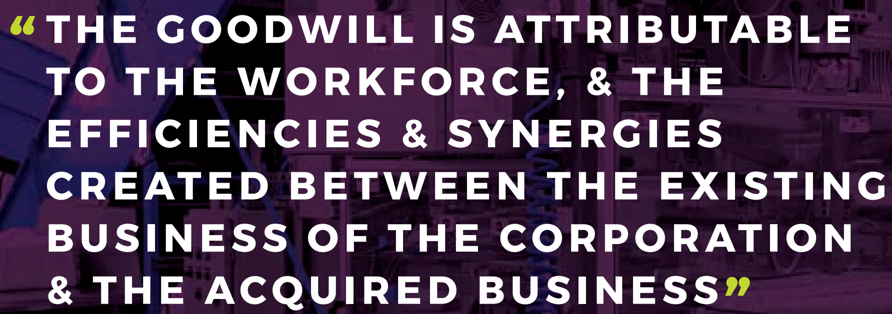
10. GOODWILL

The Corporation performed its annual assessment for goodwill impairment for the Canadian CGU as at December 31, 2017 and for the UK division as at November 28, 2017 in accordance with its policy described in note 2(l). Goodwill has been allocated to the following CGUs:

	2017	2016
Calgary	5,382	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	**20,456**	**20,456**

	2017	2016
UK division	18,100	-
Changes due to movement in exchange rate	(30)	-
UK division	**18,070**	**-**
Goodwill	**38,526**	**20,456**

($ Thousands)


“THE GOODWILL IS ATTRIBUTABLE TO THE WORKFORCE, & THE EFFICIENCIES & SYNERGIES CREATED BETWEEN THE EXISTING BUSINESS OF THE CORPORATION & THE ACQUIRED BUSINESS”

Canadian division

In assessing goodwill for impairment at December 31, 2017, the Corporation determined that: the assets and liabilities of the CGUs evaluated have not changed significantly from the prior year at December 31, 2016; the estimated recoverable amounts of the CGUs exceeded their carrying amounts by a significant amount; no events or circumstances have changed.

In performing our analysis, 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% (2016 – 3%) and a pre-tax discount rate of 10% to 12% (2016 – 11% to 13%) for all CGUs. The growth rates represent management's current assessment of future industry trends and are 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 exceeds 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.

Based on sensitivity analysis, no reasonably possible change in growth rate assumptions would cause the carrying value to exceed the recoverable amount. A 1% change in the discount rate would not have a significant impact on the recoverable amounts of CGUs. The recoverable amount of each CGU is sensitive to changes in market conditions and could result in material changes. The process for determining the recoverable amount is subjective and requires management to exercise significant judgment in determining the future growth rates and discount rates.

UK Division

In performing our analysis, estimated recoverable amounts were determined based on fair value less costs of disposal. 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 obligations to restore leased premises of its leased plants. A provision has been recognized for the present value of the estimated expenditure required to remove leasehold improvements and installed equipment. The Corporation estimates the undiscounted, inflation adjusted cash flows required to settle these obligations at December 31, 2017 to be $2,853. Management has estimated the present value of this obligation at December 31, 2017 to be $2,393 using an inflation rate of 1.72% and pre-tax weighted average risk-free interest rate of 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, 2017, if actual costs were to differ by 10% from management's estimate the obligation would be an estimated $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 asset retirement obligation activity during the year:

	2017	2016
Balance, beginning of year	-	-
Adoption of standard	1,302	-
Additions	513	-
Acquisition of business	537	-
Accretion expense	42	-
Changes due to movement in exchange rates	(1)	-
Balance, end of year	**2,393**	**-**

($ Thousands of Canadian dollars, except share and per share amounts)

12. LONG-TERM DEBT

	PRIME RATE LOAN [1]
AT JANUARY 1, 2016	2,349
Net proceeds from debt	23,451
Closing balance at December 31, 2016	25,800
AT JANUARY 1, 2017	25,800
Net proceeds from debt	16,980
Closing balance at December 31, 2017	42,780

1 Prime rate loan, collateralized by a general security agreement, bear 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, 2016 – July 31, 2020). 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, 2017, the combined interest rate was 3.7% (December 31, 2016 – 2.7%).

During 2017 the Corporation completed an amendment to its existing revolving credit facility, which extended the agreement to July 31, 2021, and increased the available limit from $85,000 to $100,000 plus a $25,000 accordion, of which $44,430 is utilized (including letters of credit totaling $1,650) as at December 31, 2017. 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

	2017	2016
Interest on long-term debt	396	372
Accretion expense	42	-
Other charges, net	695	367
	1,133	**739**

14. UNAMORTIZED LEASE INDUCEMENTS

	2017	2016
Balance, beginning of year	2,112	839
Lease inducement received	408	1,497
Acquisition charge	370	-
Amortization charge	(98)	(224)
	2,792	**2,112**
Less current portion, including in accrued liabilities	(209)	(249)
	2,583	**1,863**

($ Thousands of Canadian dollars, except share and per share amounts)

15. INCOME TAXES

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

	2017	2016
Current tax:		
Current tax on profits for the year	2,137	4,467
Total current tax	**2,137**	**4,467**
Deferred tax:		
Origination and reversal of temporary differences	1,578	385
Impact of substantively enacted rated and other	46	(12)
Total deferred tax	**1,624**	**373**

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:

	2017	2016
Earnings before income taxes	9,479	16,367
Non-deductible expenses	4,657	1,743
Income subject to tax	**14,136**	**18,110**
Income tax at statutory rate of 26.53% (2016 - 26.58%)	3,750	4,814
Difference between Canadian and foreign tax rates	1	-
Impact of substantively enacted rates and other	10	26
Income tax expense	**3,761**	**4,840**

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

	2017	2016
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	(2,368)	(601)
Deferred tax liability to be recovered within 12 months	(95)	(94)
	(2,463)	**(695)**
Deferred tax liabilities:		
Deferred tax asset to be recovered after more than 12 months	8,467	3,982
Deferred tax liability to be recovered within 12 months	3,834	2,999
	12,301	6,981
Deferred tax liabilities, net	**9,838**	**6,286**

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:

DEFERRED TAX ASSETS	ASSET RETIREMENT OBLIGATION	OFFERING COSTS AND OTHER	TOTAL
AT JANUARY 1, 2016	-	(451)	(451)
Charged (credited) to the statement of earning	-	(244)	(244)
AT DECEMBER 31, 2016	-	(695)	(695)
Acquisition of business	-	(238)	(238)
Charged (credited) to the statement of changes in 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)**

DEFERRED TAX LIABILITIES	LINEN IN SERVICE	PROPERTY, PLANT AND EQUIPMENT	INTANGIBLE ASSETS AND GOODWILL	TOTAL
AT JANUARY 1, 2016	2,923	2,432	1,009	6,364
Charged (credited) to the statement of earnings	76	786	(245)	617
AT DECEMBER 31, 2016	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 rate	1	(1)	(1)	(1)
At December 31, 2017	**3,832**	**5,331**	**3,138**	**12,301**

($ Thousands of Canadian dollars)

16. CONTINGENCIES & COMMITMENTS

A. Contingencies

The Corporation has standby letters of credit issued as part of normal business operations in the amount of $1,650 (December 31, 2016 – $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

i. Operating leases and utility commitments

At December 31, 2017, 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	
2018	9,588
2019	8,629
2020	6,750
2021	5,760
2022	5,355
Subsequent	32,194
	68,276

UTILITY COMMITMENTS	
2018	5,827
2019	1,287
2020	1,288
2021	1,274
2022	-
Subsequent	-
	9,676

($ Thousands of Canadian dollars)

i. Linen purchase commitments

At December 31, 2017, the Corporation was committed to linen expenditure obligations in the amount of $10,232 (December 31, 2016 – $6,926) to be incurred within the next year.

ii. Property, plant and equipment commitments

At December 31, 2017, the Corporation was committed to capital expenditure obligations in the amount of $28,748 (December 31, 2016 – $28,897) to be incurred within the next year and $0 (December 31, 2016 – $8,628) to be incurred in the next two years.

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

	2017	2016
Balance, beginning of the year	8,023,480	7,985,713
Common share issued under LTI	42,422	37,767
Common share issuance under equity offering	2,442,600	-
Balance, end of year	10,508,502	8,023,480
Unvested common shares held in trust for LTI	54,880	44,634

	2017
Proceeds from share issuance	92,218
Underwriter fee	(3,689)
Cost associated with share issuance	(874)
Net proceeds from share issuance	87,655
Deferred income tax impact of share issuance (note 17)	1,227
Total impact to share capital	**88,882**

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.

	2017	2016
Net earnings	5,718	11,527
Weighted average number of shares outstanding (thousands)	9,084	7,955
Net earnings per share, basic	0.63	1.45

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

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.

	2017	2016
Basic weighted average shares for the year	9,083,693	7,955,026
Dilutive effect of LTI shares	31,181	31,703
Diluted weighted average shares for the year	9,114,874	7,986,729

	2017	2016
Net earnings	5,718	11,527
Weighted average number	9,115	7,987
Net earnings per share, diluted	0.63	1.44

19. LONG-TERM INCENTIVE PLAN

A trust was formed to hold equity grants issued under the terms of the LTI on behalf of the participants (the "LTIP Trust"). The Corporation is neither a trustee of the LTIP Trust nor a direct participant of the LTI; however, under certain circumstances the Corporation may be the beneficiary of forfeited Common shares held by the LTIP Trust. The Corporation has control over the LTIP Trust as it is exposed, or has rights, to variable returns and has the ability to affect those returns through its power over the LTIP Trust. Therefore the Corporation has consolidated the LTIP Trust. 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 Trust are paid to LTI participants. Unvested Common shares held by the LTIP Trust are shown as a reduction of shareholders' equity.

	2017		2016	
	Unvested	Vested	Unvested	Vested
Balance, beginning of year	44,634	375,958	39,716	343,109
Issued during year	28,544	13,879	26,336	11,431
Vested during year	(18,298)	18,298	(21,418)	21,418
Balance, end of year	**54,880**	**408,135**	**44,634**	**375,958**

The cost of the 54,880 (2016 – 39,716) unvested Common shares held by the LTIP Trust at December 31, 2017 was nil (2016 - nil).

20. DIVIDENDS TO SHAREHOLDERS

During the year ended December 31, 2017, the Corporation declared total dividends to shareholders of $11,121 or $1.200 per share (2016 - $9,613 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

	2017	2016
Accounts receivable	(2,961)	(1,296)
Linen in service	(2,720)	(232)
Prepaid expenses and deposits	(309)	(411)
Accounts payable and accrued liabilities [1]	4,930	340
Income taxes payable / receivable	(2,862)	405
	(3,922)	(1,194)

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 $4,078 (2016 - $3,905).

22. FINANCIAL INSTRUMENTS

A. Fair value

The Corporation's financial instruments at December 31, 2017 and 2016 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

i. 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, 2017, 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 $46, respectively, on net earnings.

Based on financial instrument balances as at December 31, 2017, 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 $54, respectively, on other comprehensive loss.

ii. 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 $428 to net earnings.

iii. 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'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. The allowance for doubtful accounts and past due receivables are reviewed by management at each balance sheet reporting date. Any amounts greater than 60 days are reviewed for impairment on a specific identification basis and have been fully accounted for as at December 31, 2017.

The Corporation updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of accounts receivable balances of each customer taking into account historic collection trends, the contractual relationship with the customer and the nature of the customer which in many cases is a publicly funded health care entity.

Management believes that the risks associated with concentrations of credit risk with respect to accounts receivable are limited due to the nature of the customers and the generally short payment terms. 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.

The aging of the Corporation's receivables and related allowance for doubtful accounts are:

DECEMBER 31, 2016	GROSS	ALLOWANCE	NET
Current	15,470	-	15,470
31-60 days	2,730	-	2,730
Greater than 60 days	282	31	251
	18,482	31	18,451

DECEMBER 31, 2017	GROSS	ALLOWANCE	NET
Current	22,813	-	22,813
31-60 days	5,906	-	5,906
Greater than 60 days	1,367	368	999
	30,086	**368**	**29,718**

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:

	2017	2016
Balance, beginning of year	31	30
Adjustment made during the year	(10)	1
Acquisition of business	348	-
Effect of movements in exchange rates	(1)	-
Balance, end of year	**368**	**31**

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:

	PAYMENTS DUE PERIOD				
	TOTAL	< 1 YEAR	1-3 YEARS	4-5 YEARS	> 5 YEARS
Long-term debt	42,780	-	42,780	-	-
Operating lease commitments	68,276	9,588	15,379	11,115	32,194
Utility commitments	9,676	5,827	2,575	1,274	-
Linen purchase obligations	10,232	10,232	-	-	-
Property, plant and equipment commitments	28,748	28,748	-	-	-

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:

	2017	2016
Long-term debt, including current proportion	42,780	25,800
Issued and outstanding letters of credit	1,650	1,650
Cash and cash equivalents	(11,276)	-
Funded debt	**33,154**	**27,450**
Net earnings for the trailing twelve months	5,718	11,527
Add:		
Income tax expense	3,761	4,840
Finance expense	1,133	739
Depreciation of property, plant and equipment	11,606	9,235
Amortization of intangible assets	1,767	1,790
EBITDA (note 28)	23,985	28,131
Funded debt to EBITDA	**1.38x**	**0.98x**

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

	2017	2016
EBITDA (note28)	23,985	28,131
Finance expense	1,133	739
Dividends to shareholders	11,121	9,613
	12,254	10,352
Fixed charge coverage	**2.0x**	**2.7x**

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 2017 and 2016, remuneration to directors and key management personnel was as follows:

	2017	2016
Salaries and retainer fees	1,487	1,431
Short-term bonus incentives	912	867
Post-employment benefits	45	43
Share-based payments	1,290	1,181
	3,734	**3,522**

1 Renumeration to directors and key management personnel for 2016 has been restated based off the change in key management personnel as defined.

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by a Director. The amounts charged are included as salaries and retainer fees. For the year ended December 31, 2017, the Corporation incurred such fees totaling $138 (2016 – $138).

25. EXPENSES BY NATURE

	2017	2016
Wages and benefits	82,184	77,154
Linen	18,998	17,547
Utilities	10,393	9,776
Delivery	11,358	8,793
Material and supplies	6,683	6,083
Occupancy costs	6,652	5,505
Repair and maintenance	5,627	4,855
Other expenses	4,679	1,245
	146,574	**130,958**

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.
2. UK division - provides laundry and linen services primarily to the hospitality sector with less than 10% of the revenue generated in other service sectors, through six plants and a distribution center located in North Lanarkshire, Inverness, West Lothian, North Shields, Perth, and Fife.

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.

A. 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 and as disclosed in Note 2(e).

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, 2019, 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 twelve months ended December 31, 2017, from these four major customers the Corporation has recorded revenue of $92,340 (2016 – $87,782), representing 54.1% (2016 – 55.2%) of total revenue.

	2017		2016	
Healthcare	116,948	68.6 %	111,384	70.0 %
Hospitality	48,883	28.7 %	47,705	30.0 %
Canadian division	**165,831**	**97.2 %**	**159,089**	**100.0 %**
Healthcare	10	0.0 %	-	0.0 %
Hospitality	4,718	2.8 %	-	0.0 %
UK division	**4,728**	**2.8 %**	**-**	**0.0 %**
Total segment revenue	**170,559**	**100.0 %**	**159,089**	**100.0 %**

B. Segment EBITDA

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

	CANADIAN DIVISION 2017	UK DIVISION 2017	OTHER 2017	2017
Net earnings (loss)	8,599	(2,881)	-	5,718
Add:				
Income tax expense (recovery)	3,803	(42)	-	3,761
Finance expense	1,115	18	-	1,133
Depreciation of property, plant and equipment	11,400	206	-	11,606
Amortization of intangible assets	1,576	191	-	1,767
Transaction costs due to acquisition of business		2,831	(2,831)	-
EBITDA	**26,493**	**323**	**(2,831)**	**23,985**

	CANADIAN DIVISION 2016	UK DIVISION 2016	OTHER 2016	2016
Net earnings (loss)	11,527	-	-	11,527
Add:				
Income tax expense	4,840	-	-	4,840
Finance expense	739	-	-	739
Depreciation of property, plant and equipment	9,235	-	-	9,235
Amortization of intangible assets	1,790	-	-	1,790
EBITDA	**28,131**	**-**	**-**	**28,131**

The Canadian division net earnings includes non-cash employee share based compensation expense of $1,508 (2016 – $1,518).

C. 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.

YEAR ENDED DECEMBER 31	CANADIAN DIVISION 2017	UK DIVISION 2017	2017
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**

YEAR ENDED DECEMBER 31	CAN DIVISION 2016	UK DIVISION 2016	2016
Total assets	168,289	-	168,289
Total segment assets	**168,289**	**-**	**168,289**

D. 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.

	CANADIAN DIVISION	UK DIVISION	
YEAR ENDED DECEMBER 31	**2017**	**2017**	**2017**
Total liabilities	78,410	15,216	93,626
Other:			
Long-term debt (note 12)	(42,780)	-	(42,780)
Total segment assets	**35,630**	**15,216**	**50,846**

	CANADIAN DIVISION	UK DIVISION	
YEAR ENDED DECEMBER 31	**2016**	**2016**	**2016**
Total liabilities	51,617	-	51,617
Other:			
Long-term debt (note 12)	(25,800)	-	(25,800)
Total segment assets	**25,817**	**-**	**25,817**

27. STATEMENTS OF EARNINGS & COMPREHENSIVE INCOME - RECLASSIFICATION

The Corporation has made a reclassification that affects some of the costs related to wages and benefits, and delivery costs. The reason is to give a true and fair view based on the intended function of the delivery costs, which have been emphasized with the strategic growth of the Corporation. In order to maintain comparability, the financial statements for 2016 and 2017 have been adjusted. The reclassification does not affect EBITDA or net earnings.

	YEAR ENDED DECEMBER 31,2017			YEAR ENDED DECEMBER 31, 2016		
	Before Reclassification	**Reclassification**	**After Reclassification**	Before Reclassification	Reclassification	After Reclassification
Wages & benefits	77,286	(6,934)	70,352	72,247	(7,172)	65,075
Delivery	11,358	6,934	18,292	8,793	7,172	15,965
Total	**88,644**	**-**	**88,644**	**81,040**	**-**	**81,040**

28. EBITDA RECLASSIFICATION

The Corporation has made a reclassification on the statement of earnings and comprehensive income, in which the "loss on disposal of property plant and equipment" has now been included as part of EBITDA, the financial statements for 2016 and 2017 have been adjusted. The reclassification does not affect net earnings.

29. 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 13, 2018 to Shareholders of record on January 31, February 28, and March 31, 2018 respectively.

B. Alberta Healthcare Contract Extension

On March 1, 2018, 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.

"K-BRO'S FOCUS IS ON PROFITABLE GROWTH IN THE YEARS TO COME AS WE EXECUTE OUR STRATEGY OF EXPANDING GEOGRAPHICALLY & ADDING NEW SERVICES FOR OUR CUSTOMERS."

CORPORATE INFORMATION

BOARD OF DIRECTORS

ROSS SMITH, *FCPA, FCA (Chair)*
Corporate Director

MATTHEW HILLS, *MBA*
Managing Director
LLM Capital Partners

STEVEN MATYAS, *BSc*
CEO
Staples Retail Inc.

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

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Edmonton, Alberta

LEGAL COUNSEL

Stikeman Elliott
Toronto, Ontario

McLennan Ross LLP
Edmonton, Alberta

PRINCIPAL BANK

TD Bank
Edmonton, Alberta

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Peter Papagianeas
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Directeur Général
Fabien Poirier
Directeur Opérations

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David Emslie
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Joe White
General Manager

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Joe White
General Manager

NEWCASTLE
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Tunnel Industrial
Estate, North Shields,
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P 01916053106
Mark Ferguson
General Manager

COATBRIDGE
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Coatbridge,
ML54RY
P 01236449010
John Marshall
General Manager

The annual meeting of Shareholders will be held at the Offices of Stikeman Elliott LLP, Calgary and Elliott Boardrooms, 5300 Commerce Court West, 199 Bay Street, Toronto, Ontario on Wednesday, June 13, 2018 at 9:00 a.m. EDT

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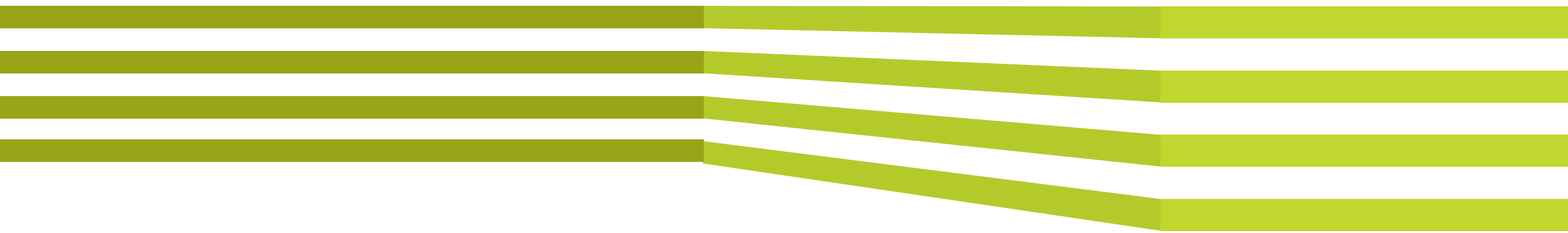

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