



K·BRO



ANNUAL REPORT

WE ARE
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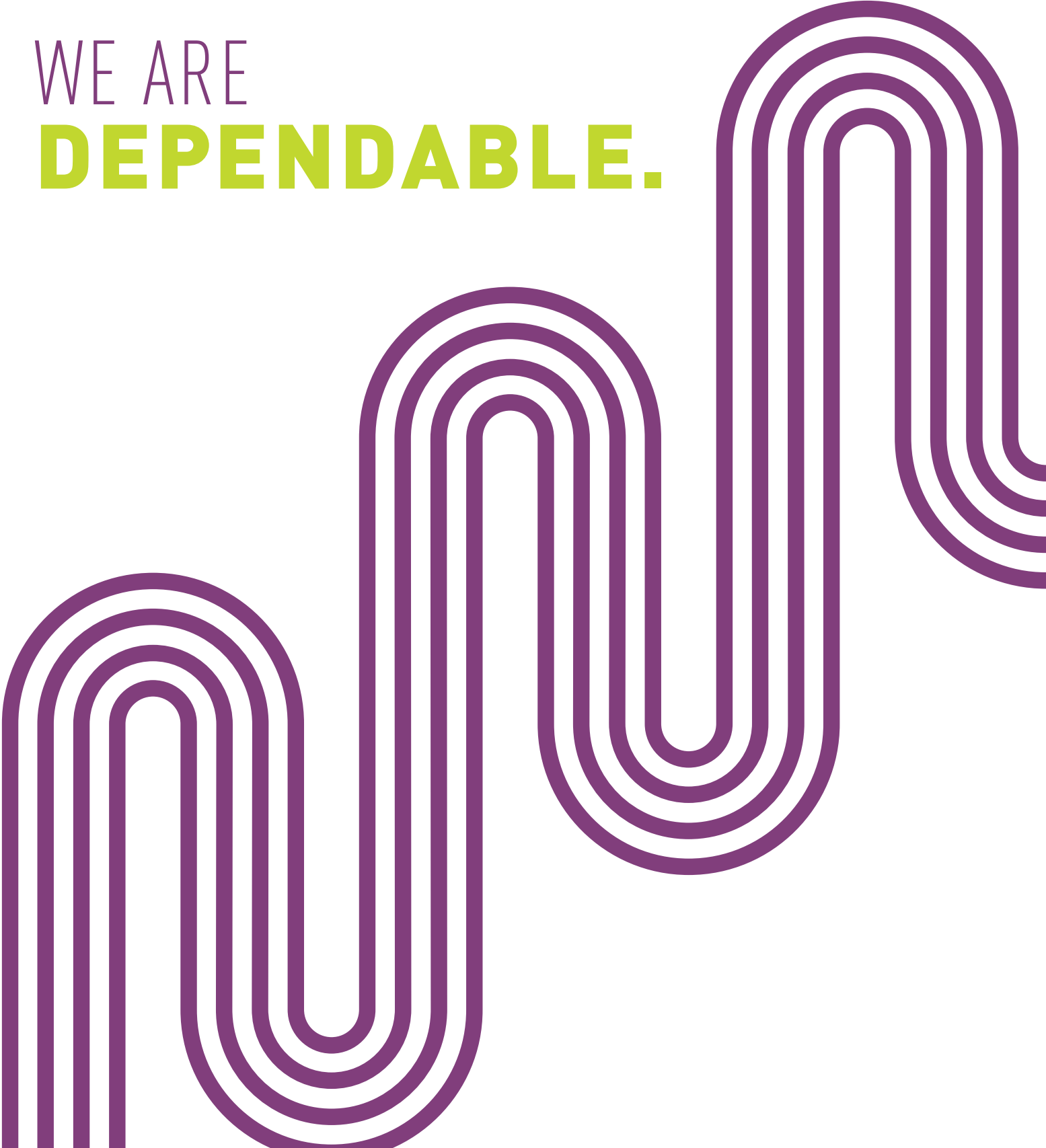




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PRESIDENT'S MESSAGE

I am writing to you a quarter into 2020 with two distinct messages. Under normal circumstances, my letter would be about 2019 results and their meaning for the future. These are anything but normal times, with the COVID-19 global pandemic and the near-shutdown of economies around the world including Canada and the UK. My report on 2019 is tempered by the health and economic crises challenging our countries and much of the world.

2019 was a year of significant accomplishments for K-Bro, including record revenue and EBITDA before the adoption of IFRS 16 of \$252.4 million and \$38.7 million, representing an increase of 5.4% and 30.8% compared with 2018. We realized growth in our key markets and a return to historical EBITDA margins for our Canadian operations. We also saw a return to positive total cash flow, enabling us to further strengthen our balance sheet and provide even greater flexibility in our capital structure. We entered 2020 well-positioned for a bright future, with the ability to profitably grow in our existing markets and expand into new markets both organically and through acquisitions.

The COVID-19 pandemic and resulting economic contraction reached Canada and the UK in March 2020. As of this writing, although K-Bro's healthcare business remains solid, representing more than 70% of our Canadian revenue and more than 55% of our total revenue however we have seen a recent decline in overall healthcare volumes as hospitals take measures to prepare for increased COVID-19 outbreaks. It is no surprise in light of circumstances that our hospitality business has quickly fallen, alongside the industry, to historically low levels which we expect will impact our company's results until national economic activity begins to turn around.

People ask how K-Bro has had to adapt in order to address an unprecedented pandemic of the contagion and lethality of COVID-19, with massive impacts in healthcare as well as in hospitality, where numerous people are isolating. The reality is that although we have made some modifications specific to logistics and shifts in demand, we always handle all materials as though they are hazardous. It is just one part of the dependability for which we are built, and for which we have earned the trust of our markets.

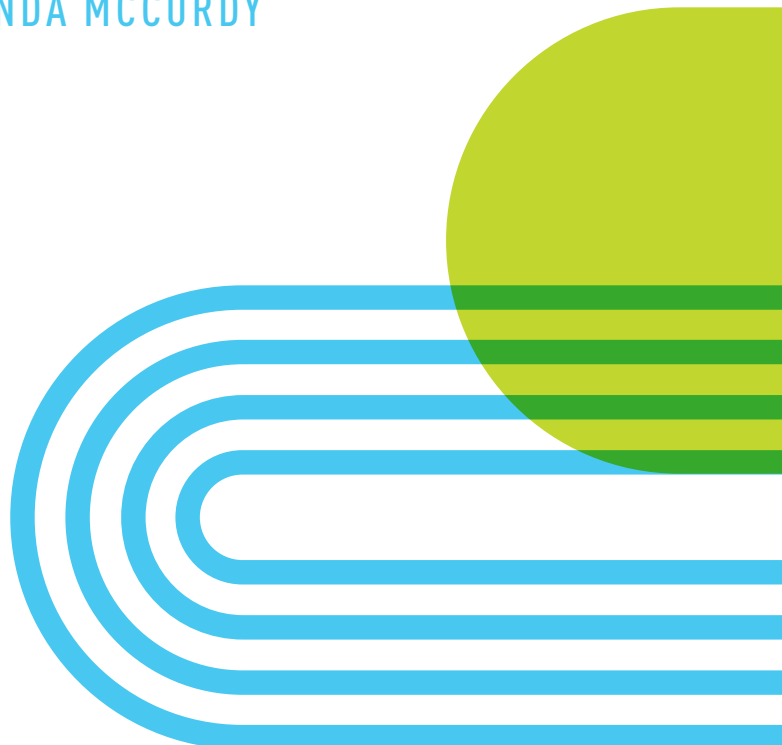
That doesn't mean it will be easy, but rather that we are prepared and well-positioned. We will continue to navigate these rapidly evolving issues and pursue growth opportunities both during the crisis and after it has receded. In the meantime, our thoughts are with people throughout Canada and the UK—and across the world—who are suffering from the health, emotional and financial implications of the pandemic.

K-Bro will continue to do as much as we can for all of our communities and customers, especially our healthcare customers, in this time of need. We will continue to have the well-being and safety of all our employees at the center of our concerns, taking action to ensure our plants and employees remain as safe and healthy as possible.

Thank you for your support and confidence. Together we will continue to deliver the best possible services and results as we move through this period of crisis, to a better and brighter future for everyone.

Warmly,

LINDA MCCURDY







CHAIRMAN'S MESSAGE

WHILE 2019 WAS A YEAR OF ACCOMPLISHMENTS FOR K-BRO, WE FACE A RAPIDLY CHANGING ENVIRONMENT AS WE MOVE THROUGH 2020.

After several years during which we invested more than \$200 million in five new facilities and two acquisitions, K-Bro turned its attention in 2019 to organic growth and the optimization of operations at all of our plants. The results included 5.4% revenue growth, 30.8% EBITDA growth before the adoption of IFRS 16 and significant improvement in margins at our Canadian facilities.

Our healthcare business remains solid, while at the same time we recognize that the COVID-19 pandemic will significantly impact our hospitality business in Canada and the UK. To our credit, K-Bro entered 2020 with a flexible capital structure and we anticipate we will continue to pursue growth opportunities even during the pandemic and financial crisis. We expect to emerge with an even stronger market position in our businesses.

On behalf of our Company and Board, thank you for your confidence and trust in supporting K-Bro. We remain committed to ensuring the best possible service for our customers—especially during a time of crisis for our health-care customers—and to providing the safest and healthiest workplace possible.



ROSS SMITH

OFFICERS & DIRECTORS

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

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

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

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

TREVOR RYE,
SCOTT INGLIS,
MICHAEL JONES,
LUCY RENAUT

JACKIE BELANGER, ANDREW MACKEEN, SEAN JACKSON





KRISTIE PLAQUIN, ROSS SMITH, MICHAEL PERCY



SEAN CURTIS, STEVEN MATYAS, MATTHEW HILLS, RYO UTAHARA



KEVIN MCELGUNN, KEVIN STEPHENSON, JEFF GANNON, DIMITRI HAMM



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

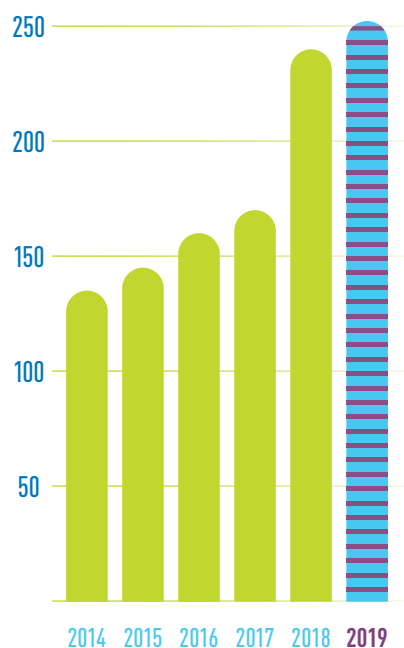
LINDA MCCURDY, *President & Chief Executive Officer*

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

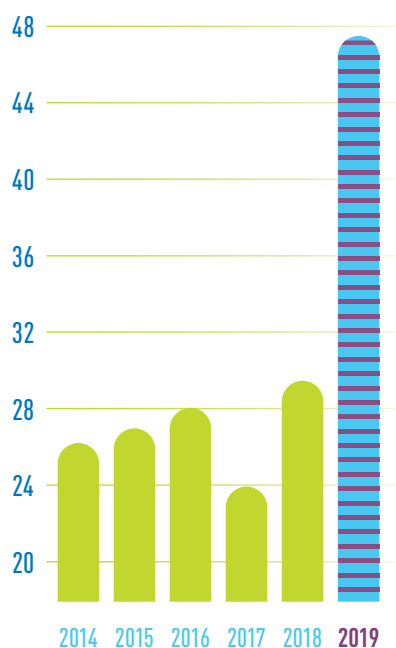
5.4%



(In millions of Canadian dollars)
Years ended December 31

EBITDA⁽¹⁾ UP

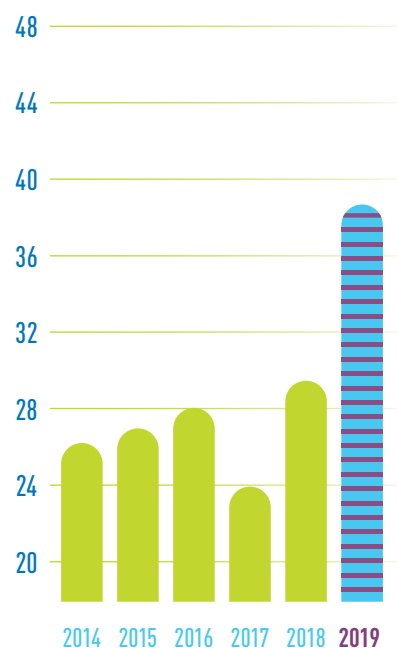
60.8%



(In millions of Canadian dollars)
Years ended December 31

EBITDA BEFORE IFRS 16⁽¹⁾ UP

30.8%



(In millions of Canadian dollars)
Years ended December 31

¹ Effective January 1, 2019, the Corporation has adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective method but has not restated comparatives for the prior periods, as permitted under the specific transitional provisions of IFRS 16. To enable the comparability of previous periods, the Corporation has provided the 2019 figures for both EBITDA and net earnings without adoption of IFRS 16 as separate line items. Refer to the Accounting Changes section of this MD&A for more information.

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

Years ended December 31,	2019	2018	2017	2016	2015	2014	2013
Income Statement Data							
Revenue	252,410	239,534	170,559	159,089	144,537	136,440	131,202
EBITDA	47,573	29,581	23,985	28,236	27,140	26,241	23,317
EBITDA (%)	18.8	12.3	14.1	17.7	18.8	19.2	17.8
EBITDA without adoption of IFRS 16 ⁽¹⁾	38,693	29,581	23,985	28,236	27,140	26,241	23,317
EBITDA (%) without adoption of IFRS 16 ⁽¹⁾	15.3	12.3	14.1	17.7	18.8	19.2	17.8
Net earnings	10,906	6,169	5,718	11,527	12,068	12,198	10,336
Net earnings without adoption of IFRS 16 ⁽¹⁾	11,339	6,169	5,718	11,527	12,068	12,198	10,336
Net earnings per share (Diluted)	1.03	0.59	0.63	1.44	1.52	1.72	1.47
Net earnings per Share without adoption of IFRS 16 (Diluted) ⁽¹⁾	1.07	0.59	0.63	1.44	1.52	1.72	1.47
Balance Sheet Data							
Working capital	31,021	34,825	32,008	13,766	8,670	21,717	9,434
Long-term debt	62,494	70,203	42,780	25,800	2,349	0	19,640
Other Financial Data							
Distributable cash per share	2.80	2.36	2.20	2.76	2.69	2.85	2.61
Payout ratio (%)	42.9	51.1	55.5	43.5	44.8	42.0	44.2
Price to earnings multiple (12 months trailing)	40.8	56.7	65.6	29.3	33.5	26.9	27.0
Price to EBITDA multiple (12 months trailing)	9.3	11.9	15.7	11.9	14.9	12.5	12.0
Return on shareholders' equity (ROE)(%)	5.6	3.1	2.8	9.9	10.7	11.1	14.5
Total shareholder return, YTD (%)	25.7	19.1	0.9	14.9	13.1	19.4	41.2
Total shareholder return, 5 yrs (%)	8.0	14.5	19.3	66.4	155.0	182.9	235.2
Market capitalization	445,914	431,794	434,211	338,190	406,872	367,023	280,976
Share price:							
High	43.16	41.71	45.00	50.98	56.99	47.90	40.50
Low	32.74	32.00	37.39	36.69	43.00	36.90	28.38
Close	42.05	33.44	41.32	42.15	50.95	46.11	39.60

¹ Effective January 1, 2019, the Corporation has adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective method but has not restated comparatives for the prior periods, as permitted under the specific transitional provisions of IFRS 16. To enable the comparability of previous periods, the Corporation has provided the 2019 figures for both EBITDA and net earnings without adoption of IFRS 16 as separate line items. Refer to the Accounting Changes section of this MD&A for more information.

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





MANAGEMENT'S **DISCUSSION & ANALYSIS**

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

The following Management's Discussion and Analysis ("MD&A") is supplemental to, and should be read in conjunction with, the audited consolidated financial statements of K-Bro Linen Inc. ("the Corporation") for the years ended December 31, 2019 and 2018 (the "2019 Audited Financial Statements"), as well as the unaudited interim condensed consolidated financial statements for the periods ended March 31, 2019, June 30, 2019 and September 30, 2019. 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 19, 2020.

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, Québec, Saskatchewan and the United Kingdom (the "UK"), which could have an adverse effect on expenses in respect of employees situated in those jurisdictions and while a portion of such expenses may be passed on to or be recoverable from customers, there can be no assurances that that will occur; (ix) the availability of future financing; (x) textile demand; (xi) the adverse impact of the coronavirus (COVID-19) pandemic on the Corporation, which is likely to be significant, particularly to our hospitality segment; and (xii) foreign currency risk. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information include: (i) volumes and pricing assumptions; (ii) expected impact of labour cost initiatives; (iii) frequency of one-time costs impacting quarterly and annual financial results; (iv) foreign exchange rates; and (v) the level of capital expenditures. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements regarding forward-looking information

included in this MD&A may be considered “financial outlook” for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A. Forward looking information included in this MD&A includes the expected annual healthcare revenues to be generated from the Corporation’s contracts with new customers, the anticipated capital costs for the Toronto and Vancouver facilities, calculation of costs, including one-time costs impacting the quarterly financial results, anticipated future capital spending and statements with respect to future expectations on margins and volume growth.

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

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

INTRODUCTION

CORE BUSINESS

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

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

The Corporation’s operations in the UK include Fishers Topco Ltd. (“Fishers”), which was acquired by K-Bro on November 27, 2017. Fishers was established in 1900 and is a leading operator of laundry and linen processing facilities in Scotland, providing linen rental, workwear hire and cleanroom garment services to the hospitality,

healthcare, manufacturing and pharmaceutical sectors. The Corporation operates six UK sites located in Cupar, Perth, Newcastle, Livingston and Coatbridge.

INDUSTRY & MARKET

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

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

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

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

INDUSTRY CHARACTERISTICS & TRENDS

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

Stable Industry with Moderate Cyclical – As evidenced by the stability in the number of approved hospital beds in the healthcare system and hotel rooms in the hospitality industry. The potential for step-changes in volumes and revenues that align with contractual arrangements exists within this industry. Service relationships are generally formalized through contracts in the healthcare sector that are typically long term (from five to ten years), while contracts in the hospitality sector usually range from two to five years. We note that the ongoing coronavirus (“COVID-19”) pandemic has introduced atypical instability in the hospitality sector which is inconsistent with the historical characteristics of and trends in K-Bro’s industry. The continued spread of COVID-19 throughout Canada and the UK, at least in the short-term, is expected to have a significant negative impact on the Corporation’s hospitality business (though, to date, we have seen a slight increase in our healthcare business).

Outsourcing and Privatization – In Canada, healthcare institutions and regional authorities are facing funding pressures and must continually evaluate the allocation of scarce resources. Consequently, there are often advantages to healthcare institutions in outsourcing the processing of healthcare linen to private sector laundry companies such as K-Bro because of the economies of scale and significant management expertise that can be provided on a more comprehensive and cost-effective basis than customers can achieve in operating their own laundry facilities.

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

CUSTOMERS & PRODUCT MIX

K-Bro’s Canadian customers include some of the largest healthcare institutions and hospitality providers in Canada. In the UK, Fishers customers include some of the largest hotel chains operating in Scotland. Healthcare customers include acute care hospitals and long-term care facilities, primarily in Canada. Most of K-Bro’s hospitality customers (typically greater than 250 rooms) have historically generated between 0.5 million and 3 million pounds of linen per year. Most healthcare customers have historically generated between 0.5 million pounds of linen per year for a hospital and up to approximately 40 million pounds of linen per year for a Canadian healthcare region. We note that the ongoing coronavirus (“COVID-19”) pandemic has introduced atypical

instability in the hospitality sector which is inconsistent with such historical linen generation trends. As COVID-19 continues to spread throughout Canada and the UK, at least in the short term, we expect significant reductions in linen volume generation by our customers in the hospitality segment, primarily as a result of decreased willingness and ability of the general population to travel to and within Canada and the UK during the course of the pandemic.

STRATEGY

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

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

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

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

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

FOURTH QUARTER OVERVIEW

Revenue increased in the fourth quarter of 2019 to \$62.9 million or by 5.8% compared to 2018. This increase was due to volume from the acquisition of an Aberdeen laundry, organic growth at existing customers, and new customers secured in existing markets. Net earnings for the fourth quarter were \$2.2 million or \$0.21 per share (basic). Cash generated by operating activities for the quarter was \$11.6 million and distributable cash flow was \$7.0 million compared to \$7.8 million and \$5.8 million respectively for the comparative quarters in the previous fiscal year.

EBITDA (see Terminology) increased in the fourth quarter to \$11.1 million from \$6.6 million in 2018, which is an increase of 67.7%. On a consolidated basis, the EBITDA margin increased from 11.1% in 2018 to 17.7% in 2019. For the Canadian

division, the EBITDA margin increased to 19.0% from 10.7% for the comparative quarter of 2019, which primarily relates to the operating efficiencies gained in the Canadian division in the quarter and the adoption of IFRS 16 Leases. For the UK division, the EBITDA margin increased to 14.0% from 12.4% for the comparative quarter of 2019, which primarily relates to the adoption of IFRS 16 Leases, offset by higher commodity costs in the UK related to timing of contracts and market conditions, and higher corporate costs. On a consolidated basis, the adoption of the IFRS 16 Leases resulted in an increase to EBITDA of \$2.0 million and accounts for 3.2% of the change in EBITDA margin for the three months ended December 31, 2019. The remainder of the increase is due to the flow through of revenue growth as discussed above, efficiencies gained as a result of the capital expenditures made in our new facilities and the associated operational efficiencies, offset by rising minimum wage rates in advance of future revenue price escalators, and tight labour markets in both British Columbia and Québec.

SELECTED ANNUAL FINANCIAL INFORMATION

<i>(\$ Thousands of CDN dollars, except percentages and per share amounts)</i>	Canadian Division 2019	UK Division 2019	2019 ⁽²⁾	Canadian Division 2018	UK Division 2018	2018	2017 ⁽¹⁾
Revenue	186,624	65,786	252,410	179,889	59,645	239,534	170,559
EBITDA	35,843	11,730	47,573	21,370	8,211	29,581	23,985
EBITDA without adoption of IFRS 16	30,052	8,641	38,693	21,370	8,211	29,581	23,985
Net earnings	7,787	3,119	10,906	2,701	3,468	6,169	5,718
Net earnings without adoption of IFRS 16	7,997	3,342	11,339	2,701	3,468	6,169	5,718
Net earnings per share:							
Basic	0.741	0.297	1.038	0.258	0.331	0.589	0.629
Diluted	0.737	0.295	1.032	0.257	0.330	0.588	0.627
Net earnings without adoption of IFRS 16 per share:							
Basic	0.761	0.318	1.079	0.258	0.331	0.589	0.629
Diluted	0.756	0.316	1.072	0.257	0.330	0.588	0.627
Total assets			352,059			322,229	295,213
Long-term debt			62,494			70,203	42,780
Weighted average number of shares outstanding:							
Basic			10,508,080			10,466,458	9,083,693
Diluted			10,571,347			10,500,014	9,114,874

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

² Effective January 1, 2019, the Corporation has adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective method but has not restated comparatives for the prior periods, as permitted under the specific transitional provisions of IFRS 16. To enable the comparability of previous periods, the Corporation has provided the 2019 figures for both EBITDA and net earnings without adoption of IFRS 16 as separate line items. Refer to the Accounting Changes section of this MD&A for more information.

SUMMARY OF 2019 RESULTS, KEY EVENTS & OUTLOOK

FINANCIAL GROWTH

Net earnings were \$10.9 million or \$1.04 per Common Share (basic). Cash flow from operating activities was \$43.9 million and distributable cash flow was \$29.6 million. Revenue increased in fiscal 2019 to \$252.4 million or by 5.4% compared to 2018. This increase was due to volume from the acquisition of Linitex, acquisition of an Aberdeen laundry, organic growth at existing customers, and new customers secured in existing markets.

EBITDA (see Terminology) increased in 2019 to \$47.6 million or by 60.8% compared to \$29.6 million in 2018. On a consolidated basis, EBITDA margin increased from 12.3% in 2018 to 18.8% in 2019. For the Canadian division, the EBITDA margin increased to 19.2% in 2019 from 11.9% in 2018. For the UK division, the EBITDA margin increased to 17.8% in 2019 from 13.8% in 2018. The changes in EBITDA and EBITDA margin relates primarily to the operating efficiencies gained in the Canadian division, as well as changes in accounting policies and the adoption of IFRS 16 Leases. The adoption of the IFRS 16 Leases in 2019 resulted in an increase to EBITDA of \$8.9 million and accounts for 3.5% of the change in EBITDA margin. The remainder of the increase is due to the flow through of revenue growth as discussed above, efficiencies gained as a result of the capital expenditures made in our new facilities and the associated operational efficiencies, offset by rising minimum wage rates in advance of future revenue price escalators, and tight labour markets in both British Columbia and Québec.

NEAR-TERM & LONG-TERM GROWTH & MARGIN IMPACT

Management has completed its strategy in its Toronto and Vancouver markets that it believes will position K-Bro for accelerated growth in its healthcare and hospitality businesses. The strategy included capital investments to build large, efficient, state-of-the-art facilities with meaningful additional capacity in Toronto and Vancouver. In addition, K-Bro has made investments to upgrade one of its existing Vancouver plants to create a more efficient facility with meaningful additional capacity.

The construction and/or upgrade of three of our large facilities enables us to bid on a significant amount of additional business, but created margin pressure through 2017, 2018 and Q1 2019 as K-Bro incurred significant one-time and transition costs associated with these large investments. Management believes that the one-time and transition costs incurred will position K-Bro to achieve more growth and a lower cost structure into the future and that K-Bro

will ultimately return to normalized margins upon resolution of the coronavirus ("COVID-19") pandemic, as more specifically discussed below.

As disclosed above, the continued spread of COVID-19 throughout Canada and the UK, at least in the short-term, is expected to have a significant negative impact on the amount of volume processed by the Corporation's hospitality segment. Management believes that, depending on the duration of the pandemic, the Corporation's capital investments in Vancouver and Toronto could position us to profitably grow our business as, for example, hotel occupancy rates rebound upon resolution of the public health crisis.

Key events in our markets are summarized below..

VANCOUVER FACILITY DEVELOPMENT

K-Bro has now completed the development of a new state-of-the-art facility located in Burnaby, BC and has incurred all of the capital costs related to this facility. The new facility has enabled K-Bro to expand current capacity, to accommodate 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 this new facility, K-Bro has upgraded and replaced equipment at one of its existing Vancouver-area facilities, which is being used to process the consolidated hospitality volume. During the third quarter of 2018, K-Bro completed the decommissioning of the third Vancouver-area facility, with related assets and volume transitioned to the existing upgraded Vancouver K-Bro facility.

BUSINESS ACQUISITION

On October 3, 2018, the Corporation announced that it successfully completed the previously announced \$4.7 million acquisition (the "Acquisition") of Linitex, a private laundry and linen services company operating in Calgary, Alberta. The Acquisition is accounted for using the acquisition method, whereby the purchase consideration is allocated to the net assets acquired.

NATIONAL CONTRACT AWARD

Effective January 1, 2019, K-Bro replaced its existing agreement with Avendra Canada, Inc. ("Avendra") with a new five-year agreement pursuant to which K-Bro became an Avendra-approved provider of laundry and linen services across Canada, with exclusivity in K-Bro's markets

commencing at various stages throughout the term. Avendra is North America's leading hospitality procurement and supply chain service provider. While K-Bro has existing contracts with and services the customers initially covered by the agreement, the new arrangement with Avendra will strengthen its relationships with these customers and secure K-Bro's position with them, as well as open up new opportunities in the hospitality segment.

REVOLVING CREDIT FACILITY

During 2019 K-Bro completed amendments to its existing \$100 million revolving credit facility, which extended the agreement to July 31, 2022 and made changes to the definitions within the agreement to clarify that all financial covenants would be tested on a pre-IFRS 16 Leases basis.

UK ACQUISITION

On July 19, 2019, the Corporation signed a share purchase agreement to acquire all the assets of a Scotland-incorporated private laundry and linen services company operating in Aberdeen. This acquisition closed in September 2019 for a total consideration of £775k plus a working capital adjustment. For accounting purposes, the transaction has been treated as an asset acquisition, whereby the net working capital was recorded at closing, and the customer contracts acquired have been recorded as an intangible asset for £883k representing the total purchase price of £775k and associated transaction costs of £88k.

CAPITAL INVESTMENT PLAN

For fiscal 2020, K-Bro had previously anticipated capital spending to be approximately \$5.0 million on a consolidated basis. However, in light of the current public health crisis, management is considering whether to significantly lower the Corporation's planned capital spending for fiscal 2020 in order to mitigate the expected significant negative impacts of the COVID-19 pandemic on the Corporation's results of operations. This guidance includes both strategic and maintenance capital requirements to support existing base business in both Canada and the UK.

ALBERTA CONTRACT AWARD

On March 1, 2020, the Corporation was awarded a one-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.

LOSS OF WHITBREAD GROUP CONTRACT

Subsequent to the 2019 fiscal year, the Corporation was unsuccessful in renewing its UK-based contract with the

Whitbread Group. The associated volume will be phased out of the relevant plant over the first two quarters of 2020. For the year ended December 31, 2019, this contract accounted for approximately 14% of Fishers' overall revenue.

CORONAVIRUS ("COVID-19") PANDEMIC

The ongoing COVID-19 pandemic has caused world governments to institute travel restrictions both in and out of and within Canada and the UK, which has had, and is expected to continue to have, a significant adverse impact on the Corporation's hospitality business, the duration of which we are unable to predict with any degree of accuracy. In recent weeks, we have seen significantly reduced hotel occupancy rates compared to historical levels. More recently, demand for both business and leisure airline travel has declined significantly on a global basis, and airlines are responding by cancelling international and domestic flights. Accordingly, hospitality volume in all of our Canadian and UK markets have slowed to historically low levels. To date, we have seen a slight increase in our healthcare business as the result of increased demand for certain products caused by COVID-19.

We have adjusted operations at many of our plants that have experienced significant declines in hospitality volume, including by reducing the size of the workforce. We anticipate implementing further adjustments as circumstances develop.

Management believes that liquidity remains strong, with cash flow generation and access to significant undrawn credit line capacity being sufficient throughout 2020.

The extent of such negative effects on our hospitality business and our financial and operational performance will depend on future developments, including the duration, spread and severity of the outbreak, the duration and geographic scope of related travel advisories and restrictions and the extent of the impact of COVID-19 on overall demand for personal and business travel, all of which are highly uncertain and cannot be predicted with any degree of accuracy. If hotels continue to experience significantly reduced occupancy rates for an extended period, our 2020 consolidated results of operations will be significantly impacted. The extent to which the outbreak affects our earnings will depend in part on our ability to implement various measures intended to reduce expenses, including consolidating production capacity and laying off additional workers. Earnings in the hospitality segment will continue to be particularly affected if we continue to experience further reductions in travel. Additionally, our suppliers or other third parties we rely upon may experience delays or shortages, which could have an adverse effect on our business prospects and results of operations.

OUTLOOK

While COVID-19 will have a significant negative impact on our hospitality revenue, management believes the prospects for the Corporation's healthcare business remains strong in the medium- to long-term. In addition, management believes that the financial flexibility provided by our strong balance sheet will enable us to operate without disruption to our business model while maintaining our ability to service the healthcare and hospitality sectors in our Canadian and UK markets. For further information about the impact of COVID-19 on our business, see the "Summary of 2019 Results, Key Events and Outlook – Coronavirus ("COVID-19") Pandemic".

RESULTS OF OPERATIONS

KEY PERFORMANCE DRIVERS

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

<i>(\$ Thousands of CDN dollars, except percentages and per share amounts)</i>		Canadian Division	UK Division	(3)	Canadian Division	UK Division	
Category	Indicator	Q4 2019	Q4 2019	Q4 2019	Q4 2018	Q4 2018	Q4 2018
Growth	EBITDA ⁽¹⁾	80.6%	32.8%	67.7%	-30.5%	171.0%	48.6%
	EBITDA without adoption of IFRS 16	50.5%	2.9%	37.7%	-30.5%	171.0%	48.6%
	Revenue	2.1%	17.5%	5.8%	5.3%	204.0%	25.1%
	Distributable cash flow ⁽⁴⁾			21.2%			109.7%
Profitability	EBITDA ⁽¹⁾	8,737	2,365	11,102	4,838	1,781	6,619
	EBITDA margin	19.0%	14.0%	17.7%	10.7%	12.4%	11.1%
	EBITDA without adoption of IFRS 16	7,283	1,833	9,116	4,838	1,781	6,619
	EBITDA without adoption of IFRS 16 margin	15.8%	10.9%	14.5%	10.7%	12.4%	11.1%
	Net earnings	1,760	435	2,195	32	1,020	1,052
	Net earnings without adoption of IFRS 16	1,835	573	2,408	32	1,020	1,052
Stability	Debt to total capital ⁽²⁾			24.7%			26.4%
	Unutilized line of credit			36,356			28,647
	Cash on hand			5,301			2,827
	Payout ratio			45.2%			54.5%
	Dividends declared per share			0.300			0.300
Cost containment	Wages and benefits	40.5%	35.8%	39.3%	43.3%	36.3%	41.6%
	Utilities	5.4%	8.9%	6.3%	6.6%	7.9%	6.9%
	Expenses included in EBITDA	81.0%	86.0%	82.3%	89.3%	87.6%	88.9%

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



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

Category	Indicator	Canadian Division YTD 2019	UK Division YTD 2019	(3) YTD 2019	Canadian Division YTD 2018	UK Division YTD 2018	YTD 2018
Growth	EBITDA ⁽¹⁾	67.7%	42.9%	60.8%	-19.3%	-427.4%	23.3%
	EBITDA without adoption of IFRS 16	40.6%	5.2%	30.8%	-19.3%	-427.4%	23.3%
	Revenue	3.7%	10.3%	5.4%	8.5%	1161.5%	40.4%
	Distributable cash flow ⁽⁴⁾			19.6%			23.5%
Profitability	EBITDA ⁽¹⁾	35,843	11,730	47,573	21,370	8,211	29,581
	EBITDA margin	19.2%	17.8%	18.8%	11.9%	13.8%	12.3%
	EBITDA without adoption of IFRS 16	30,052	8,641	38,693	21,370	8,211	29,581
	EBITDA without adoption of IFRS 16 margin	16.1%	13.1%	15.3%	11.9%	13.8%	12.3%
	Net earnings	7,787	3,119	10,906	2,701	3,468	6,169
	Net earnings without adoption of IFRS 16 margin	7,997	3,342	11,339	2,701	3,468	6,169
Stability	Debt to total capital ⁽²⁾			24.7%			26.4%
	Unutilized line of credit			36,356			28,647
	Cash on hand			5,301			2,827
	Payout ratio			42.9%			51.1%
	Dividends declared per share			1.200			1.200
Cost containment	Wages and benefits	40.9%	35.4%	39.4%	43.7%	36.0%	41.7%
	Utilities	5.7%	8.9%	6.5%	5.9%	7.2%	6.3%
	Expenses included in EBITDA	80.8%	82.2%	81.2%	88.1%	86.2%	87.7%

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

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

³ Effective January 1, 2019, the Corporation has adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective method but has not restated comparatives for the prior periods, as permitted under the specific transitional provisions of IFRS 16. To enable the comparability of previous periods, the Corporation has provided the 2019 figures for both EBITDA and net earnings without adoption of IFRS 16 as separate line items. Refer to the Accounting Changes section of this MD&A for more information.

⁴ Effective January 1, 2019, distributable cash flow includes the addition of principal elements of lease payments. This accounts for the change in accounting policies and the adoption of IFRS 16, where now the principal elements of lease payments flow through financing outflows opposed to operating cash flows.

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

FINANCIAL IMPACT OF THE ADOPTION OF NEW ACCOUNTING STANDARDS

As discussed in Note 3 – Changes in accounting policies to the 2019 Audited Financial Statements, the Corporation has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions set out in IFRS 16.

The tables below provide a reconciliation of actual Q4 2019 financial results compared with what would have occurred had we not adopted this new accounting policy.

EBITDA without adoption of IFRS 16 Leases

3 Months Ended December 31, (\$ Thousands of CDN dollars)	Segment EBITDA 2019	Adjustments on Adoption of IFRS 16 2019	EBITDA Without Adoption of IFRS 16 2019	2018
Canadian Division	8,737	(1,454)	7,283	4,838
UK Division	2,365	(532)	1,833	1,781
	11,102	(1,986)	9,116	6,619
Years Ended December 31, (\$ Thousands of CDN dollars)	Segment EBITDA 2019	Adjustments on Adoption of IFRS 16 2019	EBITDA Without Adoption of IFRS 16 2019	2018
Canadian Division	35,843	(5,791)	30,052	21,370
UK Division	11,730	(3,089)	8,641	8,211
	47,573	(8,880)	38,693	29,581

Net earnings without adoption of IFRS 16 Leases

3 Months Ended December 31, (\$ Thousands of CDN dollars)	Segment Net Earnings (Loss) 2019	Adjustments on Adoption of IFRS 16 2019	Net earnings (Loss) Without Adoption of IFRS 16 2019	2018
Canadian Division	1,760	75	1,835	32
UK Division	435	138	573	1,020
	2,195	213	2,408	1,052
Years Ended December 31, (\$ Thousands of CDN dollars)	Segment Net Earnings (Loss) 2019	Adjustments on Adoption of IFRS 16 2019	Net Earnings (Loss) Without Adoption of IFRS 16 2019	2018
Canadian Division	7,787	210	7,997	2,701
UK Division	3,119	223	3,342	3,468
	10,906	433	11,339	6,169

QUARTERLY FINANCIAL INFORMATION - CONSOLIDATED

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

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

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

Quarterly Financial Information - Consolidated

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

	2019 ⁽²⁾							
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	35,482	34,710	34,729	34,103	34,469	33,378	33,868	33,601
Hospitality revenue	27,410	33,132	29,164	23,680	24,971	30,594	26,870	21,783
Total revenue	62,892	67,842	63,893	57,783	59,440	63,972	60,738	55,384
Expenses included in EBITDA	51,790	53,225	51,154	48,668	52,821	55,662	52,286	49,184
EBITDA ⁽¹⁾	11,102	14,617	12,739	9,115	6,619	8,310	8,452	6,200
EBITDA as a % of revenue (EBITDA margin)	17.7%	21.5%	19.9%	15.8%	11.1%	13.0%	13.9%	11.2%
EBITDA without adoption of IFRS 16	9,116	12,286	10,488	6,803	6,619	8,310	8,452	6,200
EBITDA without adoption of IFRS 16 as % of revenue	14.5%	18.1%	16.4%	11.8%	11.1%	13.0%	13.9%	11.2%
Depreciation and amortization	7,011	7,059	6,979	6,916	5,252	5,069	4,271	4,283
Finance expense	1,213	1,510	1,566	1,513	866	857	716	876
Earnings before income taxes	2,878	6,048	4,194	686	501	2,384	3,465	1,041
Income tax expense	683	1,379	647	191	(551)	498	881	394
Net earnings	2,195	4,669	3,547	495	1,052	1,886	2,584	647
Net earnings as a % of revenue	3.5%	6.9%	5.6%	0.9%	1.8%	2.9%	4.3%	1.2%
Basic earnings per share	0.209	0.444	0.338	0.047	0.100	0.180	0.247	0.062
Diluted earnings per share	0.207	0.441	0.336	0.047	0.100	0.179	0.246	0.062
Net earnings without adoption of IFRS 16	2,408	4,736	3,637	558	1,052	1,886	2,584	647
Basic earnings per share without adoption of IFRS 16	0.229	0.451	0.346	0.053	0.100	0.180	0.247	0.062
Diluted earnings per share without adoption of IFRS 16	0.227	0.447	0.344	0.053	0.100	0.179	0.246	0.062
Total assets	352,059	353,021	361,018	360,563	322,229	316,968	317,051	312,193
Total long-term financial liabilities	116,455	119,102	129,862	123,049	87,831	84,436	86,675	72,189
Funds provided by (used in) operations	11,555	19,816	2,875	9,670	7,799	9,759	(4,629)	4,625
Long-term debt	62,494	66,070	75,952	67,444	70,203	67,045	70,505	56,356
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300

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

² Effective January 1, 2019, the Corporation has adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective method but has not restated comparatives for the prior periods, as permitted under the specific transitional provisions of IFRS 16. To enable the comparability of previous periods, the Corporation has provided the 2019 figures for both EBITDA and net earnings without adoption of IFRS 16 as separate line items. Refer to the Accounting Changes section of this MD&A for more information.

QUARTERLY FINANCIAL INFORMATION - CANADIAN DIVISION

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

Quarterly Financial Information - Canadian Division	2019 ⁽²⁾				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	33,839	33,224	33,122	32,435	32,912	31,818	32,193	32,010
Hospitality revenue	12,162	16,267	13,477	12,098	12,155	15,054	12,465	11,282
Total revenue	46,001	49,491	46,599	44,533	45,067	46,872	44,658	43,292
Expenses included in EBITDA	37,264	39,068	37,300	37,149	40,229	41,758	38,758	37,774
EBITDA ⁽¹⁾	8,737	10,423	9,299	7,384	4,838	5,114	5,900	5,518
EBITDA as a % of revenue (EBITDA margin)	19.0%	21.1%	20.0%	16.6%	10.7%	10.9%	13.2%	12.7%
EBITDA without adoption of IFRS 16	7,283	8,925	7,884	5,960	4,838	5,114	5,900	5,518
EBITDA without adoption of IFRS 16 as % of revenue	15.8%	18.0%	16.9%	13.4%	10.7%	10.9%	13.2%	12.7%
Net earnings	1,760	2,893	2,403	731	32	200	1,421	1,048
Net earnings as a % of revenue	3.8%	5.8%	5.2%	1.6%	0.1%	0.4%	3.2%	2.4%
Basic earnings per share	0.167	0.275	0.229	0.070	0.003	0.019	0.136	0.100
Diluted earnings per share	0.166	0.273	0.228	0.069	0.003	0.019	0.135	0.100
Net earnings without adoption of IFRS 16	1,835	2,919	2,456	787	32	200	1,421	1,048
Basic earnings per share without adoption of IFRS 16	0.174	0.278	0.234	0.075	0.003	0.019	0.136	0.100
Diluted earnings per share without adoption of IFRS 16	0.173	0.276	0.233	0.075	0.003	0.019	0.135	0.100

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 Effective January 1, 2019, the Corporation has adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective method but has not restated comparatives for the prior periods, as permitted under the specific transitional provisions of IFRS 16. To enable the comparability of previous periods, the Corporation has provided the 2019 figures for both EBITDA and net earnings without adoption of IFRS 16 as separate line items. Refer to the Accounting Changes section of this MD&A for more information.

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



QUARTERLY FINANCIAL INFORMATION - UK DIVISION

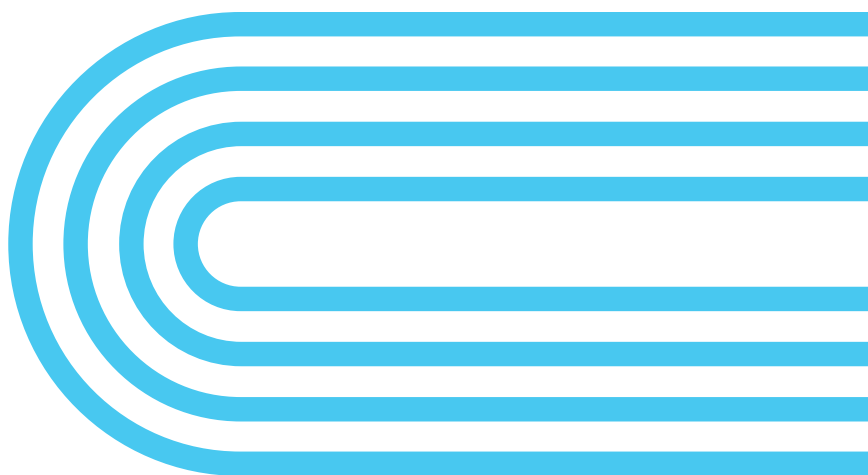
The following table provides certain selected consolidated financial and operating data prepared by K-Bro management for the preceding eight quarters:

Quarterly Financial Information - UK Division (in reporting currency Canadian \$)	2019 ⁽²⁾				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	1,643	1,486	1,607	1,668	1,557	1,560	1,675	1,591
Hospitality revenue	15,248	16,865	15,687	11,582	12,816	15,540	14,405	10,501
Total revenue	16,891	18,351	17,294	13,250	14,373	17,100	16,080	12,092
Expenses included in EBITDA	14,526	14,157	13,854	11,519	12,592	13,904	13,528	11,410
EBITDA ⁽¹⁾	2,365	4,194	3,440	1,731	1,781	3,196	2,552	682
EBITDA as a % of revenue (EBITDA margin)	14.0%	22.9%	19.9%	13.1%	12.4%	18.6%	15.9%	5.6%
EBITDA without adoption of IFRS 16	1,833	3,361	2,604	843	1,781	3,196	2,552	682
EBITDA without adoption of IFRS 16 as % of revenue	10.9%	18.3%	15.1%	6.4%	12.4%	18.6%	15.9%	5.6%
Net earnings (loss)	435	1,776	1,144	(236)	1,020	1,686	1,163	(401)
Net earnings (loss) as a % of revenue	2.6%	9.7%	6.6%	-1.8%	7.1%	9.9%	7.2%	-3.3%
Basic earnings (loss) per share	0.041	0.169	0.109	(0.022)	0.097	0.161	0.111	(0.038)
Diluted earnings (loss) per share	0.041	0.168	0.108	(0.022)	0.097	0.160	0.111	(0.038)
Net earnings (loss) without adoption of IFRS 16	573	1,817	1,181	(229)	1,020	1,686	1,163	(401)
Basic earnings (loss) per share without adoption of IFRS 16	0.054	0.173	0.112	(0.022)	0.097	0.161	0.111	(0.038)
Diluted earnings (loss) per share without adoption of IFRS 16	0.054	0.172	0.112	(0.022)	0.097	0.160	0.111	(0.038)

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 Effective January 1, 2019, the Corporation has adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective method but has not restated comparatives for the prior periods, as permitted under the specific transitional provisions of IFRS 16. To enable the comparability of previous periods, the Corporation has provided the 2019 figures for both EBITDA and net earnings without adoption of IFRS 16 as separate line items. Refer to the Accounting Changes section of this MD&A for more information.

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



Quarterly Financial Information - UK Division (in reporting currency Sterling £)	2019 ⁽²⁾				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	966	913	935	963	917	916	952	903
Hospitality revenue	8,967	10,359	9,126	6,689	7,550	9,077	8,201	5,963
Total revenue	9,933	11,272	10,061	7,652	8,467	9,993	9,153	6,866
Expenses included in EBITDA	8,543	8,696	8,058	6,654	7,413	8,139	7,700	6,480
EBITDA ⁽¹⁾	1,390	2,576	2,003	998	1,054	1,854	1,453	386
EBITDA as a % of revenue (EBITDA margin)	14.0%	22.9%	19.9%	13.1%	12.4%	18.6%	15.9%	5.6%
EBITDA without adoption of IFRS 16	1,077	2,065	1,517	485	1,054	1,854	1,453	386
EBITDA without adoption of IFRS 16 as a % of revenue	10.9%	18.3%	15.1%	6.4%	12.4%	18.6%	15.9%	5.6%
Net earnings (loss)	254	1,091	668	(138)	600	972	662	(229)
Net earnings (loss) as a % of revenue	2.6%	9.7%	6.6%	-1.8%	7.1%	9.7%	7.2%	-3.3%
Basic earnings (loss) per share	0.024	0.104	0.064	(0.013)	0.057	0.093	0.063	(0.022)
Diluted earnings (loss) per share	0.024	0.103	0.063	(0.013)	0.057	0.092	0.063	(0.022)
Net earnings (loss) without adoption of IFRS 16	336	1,115	690	(134)	600	972	662	(229)
Basic earnings (loss) per share without adoption of IFRS 16	0.032	0.106	0.066	(0.013)	0.057	0.093	0.063	(0.022)
Diluted earnings (loss) per share without adoption of IFRS 16	0.032	0.105	0.065	(0.013)	0.057	0.092	0.063	(0.022)

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 Effective January 1, 2019, the Corporation has adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective method but has not restated comparatives for the prior periods, as permitted under the specific transitional provisions of IFRS 16. To enable the comparability of previous periods, the Corporation has provided the 2019 figures for both EBITDA and net earnings without adoption of IFRS 16 as separate line items. Refer to the Accounting Changes section of this MD&A for more information.

(Thousands, except percentages and per share data)

REVENUE, EARNINGS & EBITDA

For the year ended December 31, 2019, K-Bro's consolidated revenue increased by 5.4% to \$252.4 million from \$239.5 million in the comparative period. This increase was due to the acquisition of Linitek, acquisition of an Aberdeen laundry, organic growth at existing customers, and new customers secured in existing markets. In 2019, approximately 55.1% of K-Bro's consolidated revenue was generated from healthcare institutions, which is lower compared to 56.5% in 2018, primarily related to the most recent acquisitions being concentrated within the hospitality sector.

Consolidated EBITDA increased in the year to \$47.6 million from \$29.6 million in 2018, which is an increase of 60.8%. The consolidated EBITDA margin increased to 18.8% in 2019 compared to 12.3% in 2018. EBITDA benefited significantly from operating efficiencies gained in our Canadian division as a result of capital investments made in 2018. The adoption of IFRS 16 Leases, increased EBITDA by \$8.9

million and accounts for 3.5% of the increase in EBITDA margin. The remainder of the increase in EBITDA is due to flow through of revenue growth as discussed above, offset by higher commodity costs in the UK, higher costs in British Columbia as a result of a temporary natural gas supply shortage during the first quarter, rising minimum wage rates in advance of future revenue price escalators, and tight labour markets in both British Columbia and Québec.

Net earnings increased by \$4.7 million or 76.8% from \$6.2 million in 2018 to \$10.9 million in 2019, and net earnings as a percentage of revenue increased by 1.7% to 4.3% in 2019 from 2.6% in 2018. The change in net earnings is primarily related to the flow through items in EBITDA discussed above, offset by higher depreciation and finance costs due to the adoption of IFRS 16 Leases of \$9.4 million, higher depreciation associated with new plant builds and acquisitions, higher finance costs related to the revolving credit facility, and offset by a higher income tax expense.

OPERATING EXPENSES

Wages and benefits decreased by \$0.4 million to \$99.6 million compared to \$100.0 million in the same comparative period of 2018, and as a percentage of revenue decreased by 2.3% to 39.4%. The decrease as a percentage of revenue is primarily related to the elimination of one-time costs related to the Vancouver transition when compared to 2018, improved labour efficiencies, offset by wages and benefits is related to incremental labour required to process higher volumes, escalating minimum wage rates, and tight labour markets in British Columbia and Québec.

Linen increased by \$0.8 million to \$27.5 million compared to \$26.7 million in the same comparative period of 2018, and as a percentage of revenue decreased by 0.2% to 10.9%. The decrease as a percentage of revenue is primarily related to the higher proportion of hospitality revenue in the quarter that doesn't require linen replacement.

Utilities increased by \$1.4 million to \$16.4 million compared to \$15.0 million in the same comparative period of 2018, and as a percentage of revenue increased by 0.2% to 6.5%. The increase as a percentage of revenue is primarily related to higher commodity costs in the UK related to timing of contracts and market conditions, higher utility costs in British Columbia as a result of a temporary natural gas supply shortage during the end of 2018 and first quarter of 2019, and offset by improved efficiencies in the new Vancouver facilities.

Delivery decreased by \$1.9 million to \$28.8 million compared to \$30.7 million in the same comparative period of 2018, and as a percentage of revenue decreased by 1.4% to 11.4%. The decrease as a percentage of revenue is primarily related to the adoption of IFRS 16 Leases, which accounts for 1.3% and a decrease to delivery costs of \$3.4 million. The remaining decrease is a result of diminishing one-time costs related to the Vancouver transition when compared to 2018, offset by increased business activity, price increases from renewals of out-sourced freight contracts, and higher cost of diesel and external freight charges tied to diesel price.

Occupancy costs decreased by \$5.4 million to \$4.5 million compared to \$9.9 million in the same comparative period of 2018, and as a percentage of revenue decreased by 2.3% to

1.8%. The decrease as a percentage of revenue is primarily related to the adoption of IFRS 16 Leases, which accounts for 2.2% and a decrease to occupancy costs of \$5.5 million, and one-time Vancouver transition costs, partially offset by costs associated with the acquisition of Linitek.

Materials and supplies decreased by \$0.2 million to \$8.3 million compared to \$8.5 million in the same comparative period of 2018, and as a percentage of revenue decreased by 0.2% to 3.3%. The decrease as a percentage of revenue is primarily related to costs related to the transition of our Vancouver facilities and certain one-time recoverable costs.

Repairs and maintenance increased by \$0.6 million to \$8.8 million compared to \$8.2 million in the same comparative period of 2018, and as a percentage of revenue increased by 0.1% to 3.5%. The increase as a percentage of revenue is primarily related to the timing of maintenance activities, and non-reoccurring costs related to laundry accreditation and health and safety initiatives, offset by one-time Vancouver transition costs in 2018.

Corporate costs increased by \$0.1 million to \$11.1 million compared to \$11.0 million in the same comparative period of 2018, and as a percentage of revenue decreased by 0.2% to 4.4%. The decrease as a percentage of revenue is primarily related to the timing of initiatives to support the Corporation's growth and business strategies across the plants.

Depreciation of property, plant and equipment and amortization of intangible assets represents the expense related to the appropriate matching of certain K-Bro long-term assets to the estimated useful life and period of economic benefit of those assets. Depreciation of property, plant and equipment increased by \$8.8 million to \$24.7 million compared to \$15.9 million in the same comparative period of 2018, the increase is primarily related to the adoption of IFRS 16 Leases of \$7.4 million, and the completion of the new Toronto and Vancouver facilities.

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 2019, cash generated by operating activities was \$43.9 million with a debt to total capitalization of 24.7%. The change in cash from operations is primarily due to the change in working capital items driven mainly from the timing of business activity, along with increased earnings from operations, and the adoption of IFRS 16 Leases, where the principal elements of lease payments are now recorded as financing outflows as opposed to flowing through operating cash flows. Management believes the unutilized balance of \$36.4 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 longterm basis in order to ensure that sufficient capital is available for future growth needs.

During 2019, cash used in financing activities was \$27.1 million compared to cash generated by financing activities of \$14.8 million in 2018. Financing activities consisted of net repayment of the revolving credit facility, offset by dividends paid to shareholders, and principal elements of lease payments.

During 2019, cash used in investing activities was \$14.3 million compared to \$40.9 million in 2018. Investing activities related primarily to the purchase of plant equipment.

CONTRACTUAL OBLIGATIONS

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

(\$ Thousands of CDN dollars)	Payments Due by Period				
	Total	< 1 Year	1-3 Years	4-5 Years	> 5 Year
Long-term debt	62,494	-	62,494	-	-
Lease liabilities	63,004	8,207	13,784	10,450	30,563
Utility commitments	10,625	6,401	4,224	-	-
Linen purchase obligations	9,821	9,821	-	-	-
Property, plant and equipment commitments	641	641	-	-	-

The lease liabilities are secured by automotive equipment and plants, and are more fully described in the 2019 Audited Financial Statements. The source of funds for these commitments will be from operating cash flow and, if necessary, the undrawn portion of the revolving credit facility.

FINANCIAL POSITION

(\$ Thousands, except percentages)	2019	2018
Cash and cash equivalents	(5,301)	(2,827)
Long-term debt (excludes lease liabilities)	62,494	70,203
Shareholders' equity	196,051	198,660
Total capital	253,244	266,036
Debt to total capital (see <i>Terminology</i> for definition)	24.7%	26.4%

For the year ended December 31, 2019, the Corporation had a debt to total capital of 24.7%, unused revolving credit facility of \$36.4 million and has not incurred any events of default under the terms of its credit facility agreement.

As at December 31, 2019, the Corporation had net working capital of \$31.0 million compared to its working capital position of \$34.8 million at December 31, 2018. The decrease in working capital is primarily attributable to the adoption of IFRS 16 Leases, offset by an increase in cash and cash equivalents, timing differences related to cash settlement of new plant equipment, income tax payments, deposits related to the acquisition of equipment related across the plants, and cash receipts from customers.

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

DIVIDENDS

Fiscal Period	Payment Date	# of Shares Outstanding	2019		2018	
			Amount Per Share	Total Amount (1)(3)(5)(7)	Amount Per Share	Total Amount (2)(4)(6)(8)
January	February 15	10,559,936	0.10000	1,056	0.10000	1,051
February	March 15	10,559,936	0.10000	1,056	0.10000	1,051
March	April 15	10,559,936	0.10000	1,056	0.10000	1,051
Q1			0.30000	3,168	0.30000	3,153
April	May 15	10,559,936	0.10000	1,056	0.10000	1,051
May	June 14	10,604,029	0.10000	1,060	0.10000	1,056
June	July 15	10,604,382	0.10000	1,060	0.10000	1,056
Q2			0.30000	3,177	0.30000	3,163
July	August 15	10,604,382	0.10000	1,060	0.10000	1,056
August	September 13	10,604,382	0.10000	1,060	0.10000	1,056
September	October 15	10,604,382	0.10000	1,060	0.10000	1,056
Q3			0.30000	3,181	0.30000	3,168
October	November 15	10,604,382	0.10000	1,060	0.10000	1,056
November	December 13	10,604,382	0.10000	1,060	0.10000	1,056
December	January 15	10,604,382	0.10000	1,060	0.10000	1,056
Q4			0.30000	3,181	0.30000	3,168
YTD			1.20000	12,707	1.20000	12,651

1 The total amount of dividends declared was \$0.10000 per share for a total of \$1,055,994 per month for January - March 2019; when rounded in thousands, \$3,168 of dividends were declared in Q1 2019.

2 The total amount of dividends declared was \$0.10000 per share for a total of \$1,050,850 per month for January - March 2018; when rounded in thousands, \$3,153 of dividends were declared in Q1 2018.

3 The total amount of dividends declared was \$0.10000 per share for a total of \$1,055,994 for April, \$1,060,403 for May 2019, and \$1,060,438 for June 2019. When rounded in thousands, \$3,177 of dividends were declared in Q2 2019.

4 The total amount of dividends declared was \$0.10000 per share for a total of \$1,050,850 per month for April - May 2018, and \$1,055,994 for June 2018. When rounded in thousands, \$3,163 of dividends were declared in Q2 2018.

5 The total amount of dividends declared was \$0.10000 per share for a total of \$1,060,438 per month for July - September 2019; when rounded in thousands, \$3,181 of dividends were declared in Q3 2019.

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

7 The total amount of dividends declared was \$0.10000 per share for a total of \$1,060,438 per month for October - December 2019; when rounded in thousands, \$3,181 of dividends were declared in Q4 2019.

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

For the year ended December 31, 2019, the Corporation declared a \$1.200 per Common Share dividend compared to \$2.801 per Common Share of Distributable Cash Flow (see *Terminology*). The actual payout ratio was 42.9%.

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:

	Q4	Q3	Q2	2019 ⁽⁴⁾ Q1	Q4	Q3	Q2	2018 Q1
Cash provided by (used in) operating activities	11,555	19,816	2,875	9,670	7,799	9,759	(4,629)	4,625
Deduct (add):								
Net changes in non-cash working capital items ⁽¹⁾	1,534	7,463	(8,615)	1,484	1,082	1,176	(12,167)	(1,471)
Share-based compensation expense	404	427	439	540	380	403	625	409
Maintenance capital expenditures ⁽²⁾	1,072	1,352	1,143	374	526	908	430	488
Principle elements of lease payments ⁽⁵⁾	1,501	1,806	1,736	1,648	-	-	-	-
Distributable cash flow⁽⁵⁾	7,044	8,768	8,172	5,624	5,811	7,272	6,483	5,199
Dividends declared	3,181	3,181	3,177	3,168	3,168	3,168	3,163	3,153
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300
Payout ratio ⁽³⁾	45.2%	36.3%	38.9%	56.3%	54.5%	43.6%	48.8%	60.6%
Weighted average shares outstanding during the period, basic	10,521	10,511	10,504	10,497	10,479	10,470	10,462	10,454
Weighted average shares outstanding during the period, diluted	10,588	10,584	10,558	10,546	10,525	10,540	10,509	10,491
Trailing-twelve months ("TTM")								
Distributable cash flow	29,608	28,375	26,879	25,190	24,765	21,725	21,690	20,744
Dividends	12,707	12,694	12,681	12,667	12,651	12,452	12,159	11,867
Payout ratio ⁽³⁾	42.9%	44.7%	47.2%	50.3%	51.1%	57.3%	56.1%	57.2%

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

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

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

⁴ Effective January 1, 2019, the Corporation has adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective method but has not restated comparatives for the prior periods, as permitted under the specific transitional provisions of IFRS 16. Refer to the Accounting Changes section of this MD&A for more information.

⁵ Effective January 1, 2019, distributable cash flow includes the addition of principal elements of lease payments. This accounts for the change in accounting policies and the adoption of IFRS 16, where now the principal elements of lease payments flow through financing outflows opposed to operating cash flows.

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

OUTSTANDING SHARES

As at December 31, 2019, the Corporation had 10,604,382 Common Shares outstanding. Basic and diluted weighted average number of Common Shares outstanding for 2019 were 10,508,080 and 10,571,347, respectively (10,466,458 and 10,500,014, respectively, for the comparative 2018 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 2018 fiscal year, on April 16, 2019 the Compensation, Nominating and Corporate Governance Committee of the Board of Directors approved LTI compensation of \$1.7 million (2018 – \$1.7 million) to be paid as Common Shares issued from treasury. As at December 31, 2019, the value of the shares held by the LTI administrator was \$2.7 million (December 31, 2018 – \$2.1 million) which was comprised of 64,924 in unvested common shares (December 31, 2018 – 63,346) with a nil aggregate cost (December 31, 2018 – \$nil).

As at March 19, 2020 there were 10,604,382 common shares issued and outstanding including 64,924 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, 2019, the Corporation incurred fees totaling \$138,000 (2018 – \$138,000).

CRITICAL ACCOUNTING ESTIMATES

The Corporation's summary of significant accounting policies are contained in Note 2 to the 2019 Audited Financial Statements.

The 2019 Audited Financial Statements include estimates and assumptions made by management in respect of operating results, financial conditions, contingencies, commitments, and related disclosures. Actual results may vary from these estimates. The following are, in the opinion

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

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

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

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

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

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

The following discusses the most significant accounting judgments and estimates in the 2019 Audited Financial Statements.

IMPAIRMENT OF GOODWILL & NON-FINANCIAL ASSETS

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

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

RECOGNITION OF REBATE LIABILITIES

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

LINEN IN SERVICE

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

SEGMENT IDENTIFICATION

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

PROVISIONS

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

BUSINESS COMBINATIONS

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

LEASE TERM

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). For many of the leases the cash outflows associated with the lease extension term would be material. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Management regularly evaluates these estimates and judgments. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

TERMINOLOGY

EBITDA

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

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

(\$ Thousands of CDN dollars)

	3 Months Ended December 31,		Years Ended December 31,	
	2019	2018	2019	2018
Net earnings	2,195	1,052	10,906	6,169
Add:				
Income tax expense	683	(551)	2,900	1,222
Finance expense	1,213	866	5,802	3,315
Depreciation of property, plant and equipment	6,053	4,484	24,705	15,871
Amortization of intangible assets	958	768	3,260	3,004
EBITDA	11,102	6,619	47,573	29,581

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.

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.

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, reinvestment 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, maintenance capital expenditures and principal elements of lease payments.

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 CAPITAL

Debt to Total Capital is defined by management as the total long-term debt divided by the Corporation's total capital. This is a measure used by investors to assess the Corporation's financial structure.

Distributable Cash Flow, Payout Ratio, Debt to Total Capital 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, 2019, the Corporation has not entered into any off balance sheet arrangements.



CHANGES IN ACCOUNTING POLICIES

The Corporation has prepared its December 31, 2019 audited consolidated financial statements in accordance with IFRS. See Note 2 of the 2019 Audited Financial Statements for more information regarding the significant accounting principles used to prepare the 2019 Audited Financial Statements.

RECENT ACCOUNTING PRONOUNCEMENTS

SIGNIFICANT ACCOUNTING POLICIES ADOPTED JANUARY 1, 2019

The Corporation has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in IFRS 16. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019.

ADJUSTMENTS RECOGNIZED ON ADOPTION OF IFRS 16

On adoption of IFRS 16, the Corporation recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The average lessee's incremental borrowing rate applied to the Corporation's lease liabilities on January 1, 2019 for the Canadian division were 4.0% to 4.7%, and for the UK division were 3.7% to 3.8%

(\$ Thousands of CDN dollars) except number of leases

	2019
Operating lease commitments disclosed as at December 31, 2018	62,655
Discounted using the lessee's incremental borrowing rate of at the date of initial application	51,861
Less: short-term leases recognized on a straight-line basis as expense	(57)
Less: low-value leases recognized on a straight-line basis as expense	(111)
Lease liability recognized as at January 1, 2019	51,693
Of which are:	
Current lease liabilities	8,921
Non-current lease liabilities	42,772
	51,693

The associated right-of-use assets for building leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at December 31, 2018. There were no material onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognized right-of-use assets relate to the following types of assets:

<i>(\$ Thousands of CDN dollars)</i>	December 31, 2019	January 1, 2019
Buildings	34,593	38,141
Vehicles	6,310	8,129
Total right-of-use assets	40,903	46,270

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

- a. right-of-use assets – increased by \$46,270
- b. deferred tax assets – increased by \$668
- c. lease liabilities:
 - i. lease liabilities increased by \$51,693
 - ii. unamortized lease inducements decreased by \$2,854
 - iii. current portion of unamortized lease inducements decreased by \$171

The net impact on retained earnings on January 1, 2019 was a decrease of \$1,730.

i) Impact on Segment Disclosures and Earnings per Share

Segment EBITDA, segment assets and segment liabilities for December 31, 2019 all increased as a result of the change in accounting policy. The following segments were affected by the change in policy:

<i>(\$ Thousands of CDN dollars)</i>	Segment EBITDA	Segment Assets	Segment Liabilities
Canadian Division	5,791	29,768	31,978
UK Division	3,089	11,135	11,213
	8,880	40,903	43,191

Basic and diluted earnings per share for the Years ended December 31, 2019 decreased by 0.04 as a result of the adoption of IFRS 16.

ii) Practical Expedients Applied

In applying IFRS 16 for the first time, the Corporation has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- reliance on previous assessments on whether leases are onerous,
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases,
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Corporation has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Corporation relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

NEW STANDARDS & INTERPRETATIONS NOT YET ADOPTED

New standards, interpretations or amendments that have been issued but are not yet effective have not been early adopted by the Corporation, and no material impact is expected on the Corporation's consolidated financial statements.



FINANCIAL INSTRUMENTS

The Corporation's financial instruments at December 31, 2019 and 2018 consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, lease liabilities, dividends payable to shareholders, and long term debt. The Corporation does not enter into financial instruments for trading or speculative purposes.

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

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

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

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

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts

and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period and included as part of the profit and loss. Derivative financial instruments are utilized by the Corporation to manage cash flow risk against the volatility in interest rates on its longterm 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, 2019. 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, 2019, there are no material changes in the Corporation's risks or risk management activities since December 31, 2018. The Corporation's results of operations, business prospects, financial condition, cash dividends to Shareholders and the trading price of the Corporation's Shares are subject to a number of risks. These risk factors include: dependence on long-term contracts and the associated renewal risk thereof; the effects of market volatility and uncertainty; potential future tax changes; the competitive environment; our ability to acquire and successfully integrate and operate additional businesses; utility costs; the labour markets; the fact that our credit facility imposes numerous covenants and encumbers assets; and, environmental matters.

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

CONTROLS & PROCEDURES

In order to ensure that information with regard to reports filed or submitted under securities legislation present fairly in all material respects the financial information of K-Bro, management, including the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), are responsible for establishing and maintaining disclosure controls and procedures, as well as internal control over financial reporting.

DISCLOSURE CONTROLS & 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, 2019, 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, 2019, 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, 2019, the CEO and CFO have concluded that these controls were operating effectively.

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

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



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

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





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Independent Auditor's Report

To the Shareholders of K-Bro Linen Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of K-Bro Linen Inc. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of earnings and comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flow for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

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

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

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

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

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants
Edmonton, Alberta / March 19, 2020

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$ Thousands of CDN dollars)

	DEC 31, 2019	DEC 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	5,301	2,827
Accounts receivable	34,900	33,536
Income tax receivable	-	3,601
Prepaid expenses and deposits	4,334	4,228
Linen in service (note 7)	26,039	26,371
	70,574	70,563
Property, plant and equipment (note 8)	226,332	194,248
Intangible assets (note 9)	13,699	15,682
Goodwill (note 10)	41,454	41,736
	352,059	322,229
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	28,689	34,682
Lease liabilities (note 14)	8,297	-
Income taxes payable	1,507	-
Dividends payable to shareholders	1,060	1,056
	39,553	35,738
Long-term debt (note 12)	62,494	70,203
Lease liabilities (note 14)	38,531	2,854
Provisions (note 11)	2,838	2,645
Deferred income taxes (note 15)	12,592	12,129
	156,008	123,569
SHAREHOLDERS' EQUITY		
Share capital	203,110	201,429
Contributed surplus	2,241	2,112
Deficit	(10,078)	(6,547)
Accumulated other comprehensive income	778	1,666
	196,051	198,660
Contingencies and commitments (note 16)		
	352,059	322,229

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

APPROVED BY THE BOARD OF DIRECTORS



ROSS S. SMITH
Director



MATTHEW HILLS
Director

CONSOLIDATED STATEMENTS OF EARNINGS & COMPREHENSIVE INCOME

<i>Years ended December 31</i>	2019	2018
REVENUE	252,410	239,534
Expenses		
Wages and benefits	99,562	99,992
Linen (note 7)	27,463	26,699
Utilities	16,427	14,991
Delivery	28,789	30,736
Occupancy costs	4,483	9,883
Materials and supplies	8,256	8,471
Repairs and maintenance	8,761	8,215
Corporate	11,104	11,030
Gain on disposal of property, plant and equipment	(8)	(64)
	204,837	209,953
EBITDA	47,573	29,581
Other expenses		
Depreciation of property, plant and equipment (note 8)	24,705	15,871
Amortization of intangible assets (note 9)	3,260	3,004
Finance expense (note 13)	5,802	3,315
	33,767	22,190
Earnings before income taxes	13,806	7,391
Current income tax expense (recovery)	1,722	(984)
Deferred income tax expense	1,178	2,206
Income tax expense	2,900	1,222
Net earnings	10,906	6,169
Other comprehensive income		
Items that may be subsequently reclassified to earnings:		
Foreign currency translation differences on foreign operations	(888)	1,738
Total comprehensive income	10,018	7,907
Net earnings per share (note 18):		
Basic	1.04	0.59
Diluted	1.03	0.59
Weighted average number of shares outstanding:		
Basic	10,508,080	10,466,458
Diluted	10,571,347	10,500,014

(\$ Thousands of CDN 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

(\$ Thousands of CDN dollars)

	Total Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (loss)	Total Equity
As at December 31, 2018	201,429	2,112	(6,547)	1,666	198,660
Change in accounting policy (note 3)	-	-	(1,730)	-	(1,730)
Restated total equity at January 1, 2019	201,429	2,112	(8,277)	1,666	196,930
Total comprehensive income	-	-	10,906	(888)	10,018
Dividends declared (note 20)	-	-	(12,707)	-	(12,707)
Employee share based compensation expense	-	1,810	-	-	1,810
Shares vested during the year	1,681	(1,681)	-	-	-
As at December 31, 2019	203,110	2,241	(10,078)	778	196,051

(\$ Thousands of CDN dollars)

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

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

CONSOLIDATED STATEMENTS OF CASH FLOW

<i>Years ended December 31,</i>	2019	2018
OPERATING ACTIVITIES		
Net earnings	10,906	6,169
Depreciation of property, plant and equipment (note 8)	24,705	15,871
Amortization of intangible assets (note 9)	3,260	3,004
Lease inducements, net of amortization (note 14)	-	262
Accretion expense (note 11)	199	129
Employee share based compensation expense	1,810	1,817
Gain on disposal of property, plant and equipment	(8)	(64)
Settlement of provision (note 11)	-	(460)
Deferred income taxes	1,178	2,206
	42,050	28,934
Change in non-cash working capital items (note 21)	1,866	(11,380)
Cash provided by operating activities	43,916	17,554
FINANCING ACTIVITIES		
Net (repayment) proceeds of revolving debt	(7,709)	27,423
Principle elements of lease payments (note 14)	(6,691)	-
Dividends paid to shareholders	(12,703)	(12,646)
Cash (used in) provided by financing activities	(27,103)	14,777
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (note 8)	(12,942)	(36,527)
Proceeds from disposal of property, plant and equipment	51	397
Purchase of intangible assets (note 9)	(1,439)	(106)
Acquisition of business (note 6)	-	(4,700)
Cash used in investing activities	(14,330)	(40,936)
Change in cash and cash equivalents during the year	2,483	(8,605)
Effect of exchange rate changes on cash and cash equivalents	(9)	156
Cash and cash equivalents, beginning of year	2,827	11,276
Cash and cash equivalents, end of year	5,301	2,827
Supplementary cash flow information		
Interest paid	5,459	2,959
Income taxes paid	228	1,199

(\$ Thousands of CDN 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, 2019 and 2018)

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

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

The Corporation’s operations in the UK include Fishers Topco Ltd. (“Fishers”) which was acquired by K-Bro on November 27, 2017. Fishers was established in 1900 and is an operator of laundry and linen processing facilities in Scotland, providing linen rental, workwear hire and cleanroom garment services to the hospitality, 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 five cities, in Scotland and the North East of England with facilities in Cupar, Perth, Newcastle, Livingston 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 19, 2020.

1) BASIS OF PRESENTATION

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

2) SIGNIFICANT ACCOUNTING POLICIES

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

a) BASIS OF MEASUREMENT

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

b) PRINCIPLES OF CONSOLIDATION

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

c) CASH & 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 to 36 months.

e) REVENUE RECOGNITION

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

1) Identifying the Contract

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

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

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

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

2) Identifying Performance Obligations in a Contract

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

3) Determining the Transaction Price

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

4) Allocating the Transaction Price

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

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

5) Performance Obligations Satisfied Over Time

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

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

f) PROPERTY, PLANT & EQUIPMENT

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

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

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

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

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

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

g) INTANGIBLE ASSETS

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

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

<i>ASSET</i>	<i>RATE</i>
Customer contracts	1 – 20 years
Computer software	5 years
Brand	Indefinite

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

h) IMPAIRMENT OF NON-FINANCIAL ASSETS

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

i) INCOME TAXES

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

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

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

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

j) BUSINESS COMBINATIONS

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

k) GOODWILL

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

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

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

l) EARNINGS PER SHARE

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

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

m) FOREIGN CURRENCY TRANSLATION

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

Translation of Foreign Entities

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

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

Translation of Transactions & Balances

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

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

n) PROVISION

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

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

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

o) EMPLOYEE BENEFITS

Post-Employment Benefit Obligations

The Corporation contributes on behalf of its employees to their individual Registered Retirement Savings Plans subject to an annual maximum of 10% of gross personal earnings. The Corporation accounts for contributions as an

expense in the period that they are incurred. The Corporation does not provide any other post-employment or post-retirement benefits.

Existing Equity-Based Compensation Plan of the Corporation

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

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

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

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

p) FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

q) IMPAIRMENT OF FINANCIAL ASSETS

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

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

r) THE CORPORATION'S LEASING ACTIVITIES & HOW THESE ARE ACCOUNTED FOR

The Corporation leases various buildings, vehicles and equipment. Rental contracts are typically made for fixed periods of one to fifteen years but may have extension options as described in Note 2(r)(ii) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any financial covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Corporation. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees, and
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Corporation:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, and
- makes adjustments specific to the lease, eg. term, country, currency and security.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are comprised of IT-equipment and small items of office furniture.

(i) Variable lease payments

Based on the valuation of the Corporation's leases, no leases have been identified that are directly tied to an index or rate, and whereby an estimate would be required in determining the uncertainty arising from variable lease payments.

(ii) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Corporation. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Corporation and not by the respective lessor.

3) CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16 Leases on the Corporation's financial statements and discloses the new accounting policies that have been applied from January 1, 2019.

The Corporation has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019.

ADJUSTMENTS RECOGNIZED ON ADOPTION OF IFRS 16

On adoption of IFRS 16, the Corporation recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The average lessee's incremental borrowing rate applied to the Corporation's lease liabilities on January 1, 2019 for the Canadian division were 4.0% to 4.7%, and for the UK division were 3.7% to 3.8%.

(\$ Thousands of CDN dollars)

	2019
Operating lease commitments disclosed as at December 31, 2018	62,655
Discounted using the lessee's incremental borrowing rate of at the date of initial application	51,861
Less: short-term leases recognized on a straight-line basis as expense	(57)
Less: low-value leases recognized on a straight-line basis as expense	(111)
Lease liability recognized as at January 1, 2019	51,693
Of which are:	
Current lease liabilities	8,921
Non-current lease liabilities	42,772
	51,693

The associated right-of-use assets for building leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at December 31, 2018. There were no material onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognized right-of-use assets relate to the following types of assets:

	December 31, 2019	January 1, 2019
Buildings	34,593	38,141
Vehicles	6,310	8,129
Total right-of-use assets	40,903	46,270

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

- a. right-of-use assets – increased by \$46,270
- b. deferred tax assets – increased by \$668
- c. lease liabilities:
 - i. lease liabilities increased by \$51,693
 - ii. unamortized lease inducements decreased by \$2,854
 - iii. current portion of unamortized lease inducements decreased by \$171

The net impact on retained earnings on January 1, 2019 was a decrease of \$1,730.

i) Impact on Segment Disclosures and Earnings per Share

Segment EBITDA, segment assets and segment liabilities for December 31, 2019 all increased as a result of the change in accounting policy. The following segments were affected by the change in policy:

	Segment EBITDA	Segment Assets	Segment Liabilities
Canadian Division	5,791	29,768	31,978
UK Division	3,089	11,135	11,213
	8,880	40,903	43,191

Basic and diluted earnings per share for the Years ended December 31, 2019 decreased by 0.04 as a result of the adoption of IFRS 16.

ii) Practical Expedients Applied

In applying IFRS 16 for the first time, the Corporation has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- reliance on previous assessments on whether leases are onerous,
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases,
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

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

- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Corporation has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Corporation relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

4) NEW STANDARDS & INTERPRETATIONS NOT YET ADOPTED

New standards, interpretations or amendments that have been issued but are not yet effective have not been early adopted by the Corporation, and no material impact is expected on the Corporation's 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 & NON-FINANCIAL ASSETS

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

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

RECOGNITION OF REBATE LIABILITIES

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

LINEN IN SERVICE

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

SEGMENT IDENTIFICATION

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

PROVISIONS

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

BUSINESS COMBINATIONS

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

LEASE TERM

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). For many of the leases the cash outflows associated with the lease extension term would be material. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Management regularly evaluates these estimates and judgments. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

6) BUSINESS ACQUISITIONS

LINITEK

On October 3, 2018, the Corporation completed the acquisition of 9306145 Canada Corp. operating as Linitek (the "Acquisition"), a private laundry and linen services company operating in Calgary, Alberta. The Acquisition was completed through an asset purchase agreement consisting of existing fixed assets, contracts and employee base. The contracts acquired are in the Alberta hospitality sector, which complements the existing business of the

Corporation. The Acquisition has been accounted for using the acquisition method, as per the criteria in IFRS 3 for identification of a business combination, whereby the purchase consideration was allocated to the fair values of the net assets acquired.

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

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

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

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

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

7) LINEN IN SERVICE

(\$ Thousands of CDN dollars)		
	2019	2018
Balance, beginning of year	26,371	21,456
Additions	27,307	31,393
Amortization charge	(27,463)	(26,699)
Effect of movement in exchange rates	(176)	221
Balance, end of year	26,039	26,371

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

8) PROPERTY, PLANT & EQUIPMENT

	Land	Buildings	Laundry Equip ⁽¹⁾	Office Equip	Delivery Equip	Computer Equip	Leasehold Improvements	Spare Parts	Total
YEAR ENDED, DEC 31, 2018									
Opening net book amount	4,023	20,235	113,129	245	208	371	32,750	707	171,668
Additions ⁽³⁾	-	152	20,979	273	77	979	14,318	526	37,304
Acquisition of business ⁽⁴⁾	-	-	712	-	138	81	-	-	931
Disposals	-	-	(310)	-	(23)	-	-	-	(333)
Transfers	-	(257)	-	-	-	-	257	-	-
Depreciation charge	-	(1,129)	(10,654)	(132)	(76)	(473)	(3,407)	-	(15,871)
Effect of movement in exchange rates	44	108	396	1	-	-	-	-	549
Closing net book amount	4,067	19,109	124,252	387	324	958	43,918	1,233	194,248

AT DECEMBER 31, 2018

Cost	4,067	22,980	179,727	975	872	2,755	59,679	1,233	272,288
Accumulated depreciation	-	(3,871)	(55,475)	(588)	(548)	(1,797)	(15,761)	-	(78,040)
Net book amount	4,067	19,109	124,252	387	324	958	43,918	1,233	194,248

YEAR ENDED, DEC 31, 2019

Opening net book amount	4,067	19,109	124,252	387	324	958	43,918	1,233	194,248
Adjustment for change in accounting policy (note 3)	-	38,141	-	-	8,129	-	-	-	46,270
Restated opening net book amount	4,067	57,250	124,252	387	8,453	958	43,918	1,233	240,518
Additions ⁽³⁾	-	580	7,283	69	1,551	328	423	623	10,857
Disposals	-	-	(5)	-	(38)	-	-	-	(43)
Depreciation charge	-	(5,251)	(11,635)	(146)	(3,366)	(578)	(3,729)	-	(24,705)
Effect of movement in exchange rates	(24)	(55)	(191)	(1)	(22)	-	(2)	-	(295)
Closing net book amount	4,043	52,524	119,704	309	6,578	708	40,610	1,856	226,332

AT DECEMBER 31, 2019

Cost	4,043	61,656	186,714	1,043	10,513	3,083	60,099	1,856	329,007
Accumulated depreciation	-	(9,132)	(67,010)	(734)	(3,935)	(2,375)	(19,489)	-	(102,675)
Net book amount	4,043	52,524	119,704	309	6,578	708	40,610	1,856	226,332

¹ Included in laundry equipment are assets under development in the amount of \$103 (2018 - \$1,582). These assets are not available for service and accordingly are not presently being depreciated.

² Total property, plant and equipment additions include amounts in accounts payable of \$2,037 (2018 - \$6,127)

³ Additions include amounts from the Canadian Division of \$5,461 (2018 - \$34,421) and from the UK Division of \$5,396 (2018 - \$2,883).

⁴ Includes amounts related to property, plant and equipment assets of the acquired business which are included in the reportable segment for the Canadian division.

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

9) INTANGIBLE ASSETS

	Healthcare Relationships	Hospitality Relationships	Computer Software	Brand	Total
YEAR ENDED, DEC 31, 2018					
Opening net book amount	1,464	11,275	-	4,240	16,979
Additions	-	104	-	-	104
Acquisition of business ⁽¹⁾	-	1,186	-	-	1,186
Amortization charge	(481)	(2,523)	-	-	(3,004)
Effect of movement in exchange rates	-	297	-	120	417
Closing net book amount	983	10,339	-	4,360	15,682

AT DECEMBER 31, 2018

Cost	19,200	21,502	927	4,360	45,989
Accumulated amortization	(18,217)	(11,163)	(927)	-	(30,307)
Net book amount	983	10,339	-	4,360	15,682

YEAR ENDED, DEC 31, 2019

Opening net book amount	983	10,339	-	4,360	15,682
Additions ⁽²⁾	-	1,439	-	-	1,439
Amortization charge	(453)	(2,807)	-	-	(3,260)
Effect of movement in exchange rates	-	(96)	-	(66)	(162)
Closing net book amount	530	8,875	-	4,294	13,699

AT DECEMBER 31, 2019

Cost	19,200	22,845	927	4,294	47,266
Accumulated amortization	(18,670)	(13,970)	(927)	-	(33,567)
Net book amount	530	8,875	-	4,294	13,699

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

² Includes amounts related to intangible assets purchased from a private laundry and linen services company incorporated in Scotland and operating in Aberdeen which are included in the reportable segment for the UK division.

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



10) GOODWILL

The Corporation performed its annual assessment for goodwill impairment for the Canadian division and for the UK division as at December 31, 2019 in accordance with its policy described in Note 2(k). Goodwill has been allocated to the following CGUs:

<i>(\$ Thousands of CDN dollars)</i>	2019	2018
Calgary	8,082	8,082
Edmonton	4,346	4,346
Vancouver 2	3,413	3,413
Victoria	3,208	3,208
Vancouver 1	2,630	2,630
Montréal	823	823
Québec	654	654
Canadian division	23,156	23,156
UK division	18,100	18,100
Changes due to movement in exchange rates	198	480
UK division	18,298	18,580
Goodwill	41,454	41,736

KEY ASSUMPTIONS USED IN IMPAIRMENT TEST

To calculate the recoverable amount for the CGUs management uses the higher of the fair value less costs of disposal and value in use. The recoverable amount was determined using either a discounted cash flow approach or an earnings multiple approach. The Corporation references Board approved budgets and cash flow forecasts, trailing twelve-month EBITDA, implied multiples and appropriate discount rates in the valuation calculations. The implied multiple is calculated by utilizing the average multiples of comparable public companies. For the significant Canadian CGU's, the Corporation used implied average forward multiples that ranged from 11.9 to 12.2 to calculate the recoverable amounts. For the UK division, the implied average forward multiples ranged from 11.9 to 12.2 to calculate the recoverable amount.

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

11) PROVISIONS

The Corporation's provision includes lease provisions and obligations to restore leased premises of its leased plants. A provision has been recognized for the present value of the estimated expenditure required to settle the lease provision and to remove leasehold improvements and installed equipment. The Corporation estimates the undiscounted, inflation adjusted cash flows required to settle these obligations at December 31, 2019 to be \$3,063 (2018 - \$3,150). Management has estimated the present value of this obligation at December 31, 2019 to be \$2,838 (2018 - \$2,645) using an inflation rate of 1.90% (2018 - 1.72%) and pre-tax weighted average risk-free interest rate of 1.68% to 1.76% (2018 - 1.85% to 2.13%) 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 2020 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, 2019, if actual costs were to differ by 10% from management's estimate the obligation would be an estimated \$284 (2018 - \$265) higher or lower. It is possible the estimated costs could change and changes to these estimates could have a significant effect on the Corporation's consolidated financial statements.

The Corporation recorded the following provision activity during the year:

<i>(\$ Thousands of CDN dollars)</i>	2019	2018
Balance, beginning of year	2,645	2,393
Additions	-	450
Acquisition of business	-	117
Accretion expense	199	129
Changes due to movement in exchange rates	(6)	16
Settlement	-	(460)
Balance, end of year	2,838	2,645

12) LONG-TERM DEBT

(\$ Thousands of CDN dollars)

Prime Rate Loan⁽¹⁾

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

At January 1, 2019	70,203
Net repayment of debt	(7,709)
Closing balance at December 31, 2019	62,494

¹ Prime rate loan, collateralized by a general security agreement, bears interest at prime plus an interest margin dependent on certain financial ratios, with a monthly repayment of interest only, maturing on July 31, 2022 (December 31, 2018 - July 31, 2021). The additional interest margin can range between 0.0% to 1.25% dependent upon the calculated Funded Debt / Credit Facility EBITDA financial ratio, with a range between 0 to 3.5x. As at December 31, 2019 the combined interest rate was 4.5% (December 31, 2018 - 4.7%).

During 2019, the Corporation completed amendments to its existing revolving credit facility, which extended the agreement to July 31, 2022 and made changes to the definitions within the agreement to clarify that all financial covenants would be tested on a pre-IFRS 16 basis.

Under the credit facility, the Corporation is required, among other conditions, to respect certain covenants on a consolidated basis. The main covenants are in regard to its Funded Debt to Credit Facility EBITDA ratio and Total Fixed Charge Coverage ratio. Management reviews compliance with these covenants on a quarterly basis in conjunction with filing requirements under its credit facility. All covenants have been met as at December 31, 2019 and December 31, 2018.

The Corporation has a revolving credit facility of up to \$100,000 plus a \$25,000 accordion of which \$63,644 is utilized (including letters of credit totaling \$1,150) as at December 31, 2019. 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

(\$ Thousands of CDN dollars)

	2019	2018
Interest on long-term debt	3,302	2,793
Lease interest expense	2,070	-
Accretion expense	199	129
Other charges, net	231	393
	5,802	3,315

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

14) LEASES

A) AMOUNTS RECOGNIZED IN THE BALANCE SHEET

The balance sheet reflects the following amounts relating to leases:

(\$ Thousands of CDN dollars)

	December 31, 2019	January 1, 2019 ⁽¹⁾
Right-of-use assets		
Buildings	34,593	38,141
Equipment	6,310	8,129
	40,903	46,270
Lease liabilities		
Buildings	40,357	43,564
Equipment	6,471	8,129
Total lease liabilities	46,828	51,693
Less, current portion of lease liabilities	(8,297)	(8,921)
Long term lease liabilities	38,531	42,772

¹ In the previous year, the Corporation only recognized lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the Corporation's borrowings. For adjustments recognized on adoption of IFRS 16 on January 1, 2019, please refer to Note 3.

Additions to the right of-of-use assets during the 2019 financial year were \$2,013.

B) AMOUNTS RECOGNIZED IN THE STATEMENT OF EARNINGS

The statement of earnings reflects the following amounts relating to leases:

(\$ Thousands of CDN dollars)

	December 31, 2019
Depreciation charge of right-of-use assets	
Buildings	4,097
Equipment	3,268
	7,365
Interest expense (included in finance expense)	2,070
Expense relating to short-term leases (included in delivery and corporate expenses)	57
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	38
The total cash outflow for leases in 2019	8,856

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

C) RECONCILIATION OF EXPECTED LEASE LIABILITIES

(\$ Thousands of CDN dollars)

	December 31, 2019
Lease liabilities	
Balance at January 1,	3,030
Adjustment for change in accounting policy (note 3)	48,668
Right-of-use asset additions	2,013
Interest expense	1,620
Cash payment of lease payments	(8,487)
Effect of movement in exchange rates	(16)
Total lease liabilities	46,828
Less current portion, included in accrued liabilities	(8,297)
Long term lease liabilities	38,531

15) INCOME TAXES

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

	2019	2018
<i>(\$ Thousands of CDN dollars)</i>		
Current tax:		
Current tax (recovery) on profits for the year	1,722	(984)
Total current tax	1,722	(984)
Deferred tax:		
Origination and reversal of temporary differences	1,501	2,241
Impact of substantively enacted rates and other	(323)	(35)
Total deferred tax	1,178	2,206

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:

	2019	2018
<i>(\$ Thousands of CDN dollars)</i>		
Earnings before income taxes	13,806	7,391
Non (deductible)/taxable expenses	(209)	(1,189)
Income subject to tax	13,597	6,202
Income tax at statutory rate of 26.74% (2018 - 26.9%)	3,636	1,668
Difference between Canadian and foreign tax rates	(195)	(61)
Impact of substantively enacted rates and other	(541)	(385)
Income tax expense	2,900	1,222

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

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

	2019	2018
<i>(\$ Thousands of CDN dollars)</i>		
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	(12,085)	(1,846)
Deferred tax asset to be recovered within 12 months	-	(484)
	(12,085)	(2,330)
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	20,545	10,283
Deferred tax liability to be recovered within 12 months	4,132	4,176
	24,677	14,459
Deferred tax liabilities, net	12,592	12,129

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:	Lease Liabilities	Provisions	Offering Costs & Other	Total
At January 1, 2018	-	(500)	(1,963)	(2,463)
Charged (credited) to the statement of earnings	-	(30)	169	139
Related to movements in exchange rates	-	-	(6)	(6)
At December 31, 2018	-	(530)	(1,800)	(2,330)
Charged (credited) to the statement of earnings	777	(33)	1,269	2,013
Change in accounting policy	(11,774)	-	-	(11,774)
Related to movements in exchange rates	2	-	4	6
At December 31, 2019	(10,995)	(563)	(527)	(12,085)

(\$ Thousands of CDN dollars)

Deferred tax liabilities:	Linen in Service	Property, Plant & Equipment	Intangible Assets & Goodwill	LTIP & Other	Total
At January 1, 2018	3,832	5,331	3,138	-	12,301
Acquisition of business	-	-	17	-	17
Charged (credited) to the statement of earnings	344	2,127	(421)	-	2,050
Related to movements in exchange rates	-	21	70	-	91
At December 31, 2018	4,176	7,479	2,804	-	14,459
Charged (credited) to the statement of earnings	(44)	(806)	(416)	431	(835)
Change in accounting policy	-	11,106	-	-	11,106
Related to movements in exchange rates	-	(11)	(42)	-	(53)
At December 31, 2019	4,132	17,768	2,346	431	24,677

(\$ Thousands of CDN dollars)

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

16) CONTINGENCIES & COMMITMENTS

A) CONTINGENCIES

The Corporation has standby letters of credit issued as part of normal business operations in the amount of \$1,150 (December 31, 2018 – \$1,150) 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

Utility Commitments

The Corporation was committed to estimated natural gas and electricity commitments for the next five calendar years and thereafter as follows:

Utility commitments (\$ Thousands of CDN dollars)

2020	6,401
2021	4,224
2022	-
2023	-
2024	-
Subsequent	-
	10,625

Linen Purchase Commitments

At December 31, 2019, the Corporation was committed to linen expenditure obligations in the amount of \$9,821 (December 31, 2018 – \$9,314) to be incurred within the next year.

Property, Plant & Equipment Commitments

At December 31, 2019, the Corporation was committed to capital expenditure obligations in the amount of \$641 (December 31, 2018 – \$1,622) to be incurred within the next year.

17) SHARE CAPITAL

A) AUTHORIZED

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

B) ISSUED

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

	2019	2018
Balance, beginning of year	10,559,936	10,508,502
Common shares issued under LTI	44,446	51,434
Balance, end of year	10,604,382	10,559,936
Unvested common shares held in trust for LTI	64,924	63,346

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

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.

	2019	2018
<i>(\$ Thousands of CDN dollars, except share and per share amounts)</i>		
Net earnings	10,906	6,169
Weighted average number of shares outstanding (thousands)	10,508	10,466
Net earnings per share, basic	1.04	0.59

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

B) DILUTED

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

	2019	2018
<i>(\$ Thousands of CDN dollars, except share and per share amounts)</i>		
Basic weighted average shares for the year	10,508,080	10,466,458
Dilutive effect of LTI shares	63,267	33,556
Diluted weighted average shares for the year	10,571,347	10,500,014
Net earnings	10,906	6,169
Weighted average number of shares outstanding (thousands)	10,571	10,500
Net earnings per share, diluted	1.03	0.59

19) LONG-TERM INCENTIVE PLAN

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

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

	2019 Unvested	Vested	2018 Unvested	Vested
Balance, beginning of year	63,346	451,104	54,880	408,135
Issued during year	30,122	14,324	34,802	16,633
Vested during year	(28,544)	28,544	(26,336)	26,336
Balance, end of year	64,924	493,972	63,346	451,104

The cost of the 64,924 (2018 – 63,346) unvested Common shares held by the LTIP Account at December 31, 2019 was nil (2018 – nil).

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

20) DIVIDENDS TO SHAREHOLDERS

During the Years ended December 31, 2019, the Corporation declared total dividends to shareholders of \$12,707 or \$1.200 per share (2018 - \$12,651 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

(\$ Thousands of CDN dollars) Years ended December 31,

	2019	2018
Accounts receivable	(1,514)	(3,571)
Linen in service	174	(4,695)
Prepaid expenses and deposits	(136)	(876)
Accounts payable and accrued liabilities ⁽¹⁾	(1,765)	(62)
Income taxes payable / receivable	5,107	(2,176)
	1,866	(11,380)

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 \$-4,090 (2018 - \$328).

22) FINANCIAL INSTRUMENTS

A) FAIR VALUE

The Corporation's financial instruments at December 31, 2019 and 2018 consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, lease liabilities, dividends payable to shareholders, and long term debt. The carrying value of accounts receivable, accounts payable and accrued liabilities, lease liabilities, and dividends payable to shareholders approximate fair value due to the immediate or short-term maturity of these financial instruments. The fair value of the Corporation's interest-bearing debt approximates the respective carrying amount due to the floating rate nature of the debt.

B) FINANCIAL RISK MANAGEMENT

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

C) PRICE RISK

Currency Risk

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

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

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

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

Based on financial instrument balances as at December 31, 2019, 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 \$3, respectively, on net earnings.

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

Based on financial instrument balances as at December 31, 2019, 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 \$36, respectively, on other comprehensive loss.

Interest Rate Risk

The Corporation is subject to interest rate risk as its credit facility bears interest at rates that depend on certain financial ratios of the Corporation and vary in accordance with market interest rates. Based on the credit facility at year end, the sensitivity to a 100 basis point movement in interest rates would result in an impact of \$625 to net earnings.

Other Price Risk

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

D) CREDIT RISK

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

Management believes that the risks associated with concentrations of credit risk with respect to accounts receivable are limited due to the generally short payment terms, and the nature of the customers, which are primarily publicly funded health care entities. The credit risk associated with

cash and cash equivalents is minimized by ensuring these financial assets are held with Canadian chartered banks and Standard Chartered Bank United Kingdom.

Cash & Cash Equivalents

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

Accounts Receivable

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

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 60 months before December 31, 2019 or January 1, 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the receivables. The Corporation has identified the GDP and the unemployment rate of the countries in which it provide services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at December 31, 2019 and 2018 was determined as follows for trade receivables:

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

December 31, 2019

	Gross	Allowance	Net
Current	26,634	-	26,634
1 to 60 days	6,464	-	6,464
61 to 90 days	1,164	-	1,164
Greater than 90 days	732	94	638
	34,994	94	34,900

(\$ Thousands of CDN dollars)

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

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:

<i>(\$ Thousands of CDN dollars)</i>	2019	2018
Opening loss allowance at January 1,	105	368
Adjustment made during the year	105	(10)
Write-offs	(114)	(262)
Effect of movements in exchange rates	(2)	9
Balance, end of year	94	105

E) LIQUIDITY RISK

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

<i>(\$ Thousands of CDN dollars)</i>	Payments Due by Period				
	Total	< 1 Year	1-3 Years	4-5 Years	> 5 Years
Long-term debt	62,494	-	62,494	-	-
Lease liabilities	63,004	8,207	13,784	10,450	30,563
Utility commitments	10,625	6,401	4,224	-	-
Linen purchase obligations	9,821	9,821	-	-	-
Property, plant and equipment commitments	641	641	-	-	-

The Corporation has a credit facility with a maturity date of July 31, 2022 (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's primary objectives when managing its capital structure are as follows:

- maintain financial flexibility and availability of capital in order to, meet financial obligations, provide dividends, execute growth plans, and to continue growth through business acquisitions;
- manage the Corporation's activities in a responsible way in order to provide an adequate return for its shareholders, while taking a conservative approach towards financial leverage and management of financial risk; and
- comply with financial covenants required under the credit facility.

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 Corporation monitors its capital structure and financing requirements using non-GAAP financial metrics required under its Credit Facility debt covenants, consisting of Funded Debt to Credit Facility EBITDA ratio and Total Fixed Charge Coverage ratio. The Funded Debt, Credit Facility EBITDA, and Total Fixed Charge Coverage are defined under the terms of the Credit Facility (see Note 12) and do not have any standardized meaning prescribed under IFRS. It is therefore unlikely to be comparable to similar measures presented by other companies. Debt covenant restrictions will vary due to the timing of Material Transactions as defined under the terms of the Credit Facility.

The Corporation's capital structure is comprised of borrowings under its credit facility, shareholders' equity, less cash and cash equivalents.

(\$ Thousands of CDN dollars) **Years ended December 31,**

	2019	2018
Long-term debt, including current portion	62,494	70,203
Issued and outstanding letters of credit	1,150	1,150
Shareholders' equity	196,051	198,660
	259,695	270,013
Less: Cash and cash equivalents	(5,301)	(2,827)
	254,394	267,186

The Corporation's financing strategy is to maintain a flexible structure consistent with the objectives stated above, to respond adequately to changes in economic conditions and to allow growth organically and through business acquisitions. In order to maintain and adjust its capital structure, the Corporation may issue new shares in the market, contract bank loans and negotiate new credit facilities.

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



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 2019 and 2018, remuneration to directors and key management personnel was as follows:

<i>(\$ Thousands of CDN dollars)</i>	2019	2018
Salaries and retainer fees	1,882	1,836
Short-term bonus incentives	967	935
Post-employment benefits	64	63
Share-based payments	1,446	1,438
	4,359	4,272

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by a Director. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms. For the Years ended December 31, 2019, the Corporation incurred such fees totaling \$138 (2018- \$138).

25) EXPENSES BY NATURE

(\$ Thousands of CDN dollars)

	2019	2018
Wages and benefits	118,851	118,347
Linen	27,463	26,699
Utilities	16,427	14,991
Delivery	15,567	18,197
Materials and supplies	10,172	10,485
Occupancy costs	4,675	10,075
Repairs and maintenance	8,761	8,215
Other expenses	2,921	2,944
	204,837	209,953

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 other sectors including healthcare, manufacturing and pharmaceutical, through six sites which are located in Cupar, Perth, Newcastle, Livingston and Coatbridge.



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

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

Segment Revenue

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

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

In Edmonton, the Corporation is the significant supplier of laundry and linen services to the entity which manages all major healthcare facilities in the region and this contract expires on March 31, 2023. In Calgary, the major customer is contractually committed to February 28, 2020, in Vancouver the major customer is contractually committed to March 1, 2027, and in Saskatchewan the major customer is contractually committed to June 1, 2025. For the Years ended December 31, 2019, from these four major customers the Corporation has recorded revenue of \$102,460 (2018 – \$98,979), representing 40.6% (2018 – 41.3%) of total revenue.

(\$ Thousands of CDN dollars)

	2019		2018	
Healthcare	132,620	52.6%	128,933	53.8%
Hospitality	54,004	21.4%	50,956	21.3%
Canadian division	186,624	74.0%	179,889	75.1%
Healthcare	6,404	2.5%	6,379	2.7%
Hospitality	59,382	23.5%	53,266	22.2%
UK division	65,786	26.0%	59,645	24.9%
Total segment revenue	252,410	100.0%	239,534	100.0%

Segment Net Earnings and EBITDA

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

2019	Canadian Division	UK Division	Total
Net earnings	7,787	3,119	10,906
EBITDA	35,843	11,730	47,573

2018	Canadian Division	UK Division	Total
Net earnings	2,701	3,468	6,169
EBITDA	21,370	8,211	29,581

The Canadian division net earnings includes non-cash employee share based compensation expense of \$1,810 (2018 – \$1,817).

(\$ Thousands of CDN dollars)

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

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. See Note 3 for details about the impact of the change in accounting policy on the current period segment disclosures.

<i>(\$ Thousands of CDN dollars)</i> At December 31, 2019	Canadian Division	UK Division	Total
Total assets	260,560	91,499	352,059
Other:			
Cash and cash equivalents	-	(5,301)	(5,301)
Total segment assets	260,560	86,198	346,758

<i>(\$ Thousands of CDN dollars)</i> At December 31, 2018	Canadian Division	UK Division	Total
Total assets	244,768	77,461	322,229
Other:			
Cash and cash equivalents	-	(2,827)	(2,827)
Total segment assets	244,768	74,634	319,402

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. See Note 3 for details about the impact of the change in accounting policy on the current period segment disclosures.

<i>(\$ Thousands of CDN dollars)</i> At December 31, 2019	Canadian Division	UK Division	Total
Total liabilities	132,156	23,852	156,008
Other:			
Long-term debt (note 12)	(62,494)	-	(62,494)
Total segment liabilities	69,662	23,852	93,514

<i>(\$ Thousands of CDN dollars)</i> At December 31, 2018	Canadian Division	UK Division	Total
Total liabilities	111,044	12,525	123,569
Other:			
Long-term debt (note 12)	(70,203)	-	(70,203)
Total segment liabilities	40,841	12,525	53,366

27) SUBSEQUENT EVENTS

A) DIVIDENDS

The Corporation's Board of Directors declared an eligible dividend of \$0.10 per Common share of the Corporation payable on each of February 14, March 13 and April 15, 2020 to Shareholders of record on January 31, February 29, and March 31, 2020 respectively.

B) ALBERTA HEALTHCARE CONTRACT EXTENSION

On March 1, 2020, 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.

C) CORONAVIRUS DISEASE 2019 ("COVID-19")

The ongoing COVID-19 pandemic has caused world governments to institute travel restrictions both in and out of and within Canada and the UK, which has had, and is expected to continue to have, a significant adverse impact on the Corporation's hospitality business, the duration of which we are unable to predict with any degree of accuracy. In recent weeks, we have seen significantly reduced hotel occupancy rates compared to historical levels. More recently, demand for both business and leisure airline travel has declined

significantly on a global basis, and airlines are responding by cancelling international and domestic flights. Accordingly, hospitality volume in all of our Canadian and UK markets have slowed to historically low levels. To date, we have seen a slight increase in our healthcare business as the result of increased demand for certain products caused by COVID-19.

The extent of such negative effects on our hospitality business and our financial and operational performance will depend on future developments, including the duration, spread and severity of the outbreak, the duration and geographic scope of related travel advisories and restrictions and the extent of the impact of COVID-19 on overall demand for personal and business travel, all of which are highly uncertain and cannot be predicted with any degree of accuracy. If hotels continue to experience significantly reduced occupancy rates for an extended period, our 2020 consolidated results of operations will be significantly impacted. The extent to which the outbreak affects our earnings will depend in part on our ability to implement various measures intended to reduce expenses, including consolidating production capacity and laying off additional workers. Earnings in the hospitality segment will continue to be particularly affected if we continue to experience further reductions in travel. Additionally, our suppliers or other third parties we rely upon may experience delays or shortages, which could have an adverse effect on our business prospects and results of operations.





CORPORATE INFORMATION

BOARD OF DIRECTORS

ROSS SMITH, FCPA

FCA (Chair)
Corporate Director

MATTHEW HILLS, MBA

Managing Director
LLM Capital Partners

STEVEN MATYAS, BSC

Corporate Director

LINDA MCCURDY, MBA

President & CEO
K-Bro Linen Systems Inc.

MICHAEL PERCY, PHD

Professor
School of Business
University of Alberta

EXECUTIVE OFFICERS

LINDA MCCURDY, MBA

President & CEO

SEAN CURTIS

Senior VP & COO
(Edmonton)

KRISTIE PLAQUIN, CPA, CA

Chief Financial Officer

**TRANSFER AGENT
& REGISTRAR**

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Calgary, Alberta

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Edmonton, Alberta

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