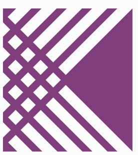
2021 ANNUAL REPORT



K·BRO

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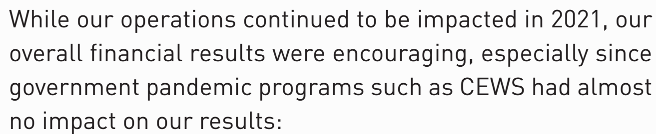
WE ARE DEPENDABLE.

PRESIDENT'S MESSAGE

Our country entered 2021 battling COVID, having suffered too many losses in 2020, and yet we were hopeful about the year ahead. While our communities in Canada and the UK continued to battle COVID, 2021 was also a time of hope and renewal. We entered 2022 optimistic about our future, with our company in a strong financial position and with our customers ready for a "return to normal". It may take some time for the return to be complete, but K-Bro's financial and operating strengths position us to grow with existing and new customers in all of our markets.

We are grateful that so many of our employees were safe and healthy during the year. While some of our employees had COVID at some time during the pandemic, fewer than 15 were in the hospital for COVID and we did not lose anyone to the disease. We believe that's a remarkable record in any circumstance, let alone one in which our employees continued to come to work every week during the pandemic. It is a tribute to our employees and their families and their focus on safe practices at home, and we continued to provide the safest and cleanest possible environment at our plants.



While our operations continued to be impacted in 2021, our overall financial results were encouraging, especially since government pandemic programs such as CEWS had almost no impact on our results:

- Revenue and EBITDA were $224mm and $42.8mm. Our healthcare business remained strong, and we are optimistic about healthcare volumes in 2022. In addition, we were honored to be awarded all of Alberta's volume in an 11-year contract (we had been processing approximately 70% of the province's volume). We now process 100% of the healthcare volume under long-term contract in Alberta and Saskatchewan, most of the Lower Mainland in B.C., and a significant number of hospitals in Toronto.
- All of our Canadian plants remained in operation throughout the year.
- We maintained a conservative balance sheet throughout the year and have entered 2022 with significant capacity to fund our organic and acquisition growth.

We are thankful for your continuing support and confidence, and remain committed to earning your trust and loyalty every day. We remain focused on providing best-in-class services for every one of our healthcare and hospitality customers, to providing career opportunities in safe environments for our valued employees, and to working hard for the financial results that we have all come to expect.

All of us at K-Bro wish you a good 2022, and that we will continue to see better times ahead.

LINDA McCURDY

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K-Bro continued to face challenges from the world-wide pandemic throughout 2021, but we entered 2022 with hope and optimism about our future. Canada and the UK both have high vaccinations rates, and our economies have strongly rebounded. K-Bro has seen volumes improve during 2021 and the beginning of 2022, and we are optimistic about continuing increases for this year and beyond.

The health and safety of our employees remain a key concern, and we were grateful for the very low rate of illness among our staff in the UK and Canada even as our facilities have remained open throughout the pandemic. We commit ourselves to an even safer environment for all of our staff.

Financial performance in 2021 showed a significant improvement in our operations, especially given the continued impact from COVID. Revenue and EBITDA were $224mm and $42.8mm, and we maintained significant liquidity throughout the year. We will continue to pursue organic and acquisition growth opportunities in existing and new markets.

Finally, 2021 was my first year as K-Bro's Chair. I want to thank the management team and all of our staff for their dedication to our company and the pride that they take in their work. I also want to thank my predecessor Ross Smith, who was our Chair from our IPO in 2005 until this past June. Ross chaired our Board during a time of tremendous growth and transformation of our business, and we are appreciative of everything he did for K-Bro for 16 years.

On behalf of our Company and Board, I want to express our gratitude for your confidence and loyalty. We remain committed to doing what is best for our customers, employees, communities and shareholders and look forward to our future with optimism and confidence.

MICHAEL PERCY

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 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.

MATTHEW HILLS,
STEVEN MATYAS,
ELISE REES,
MICHAEL PERCY,
LINDA McCURDY

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.

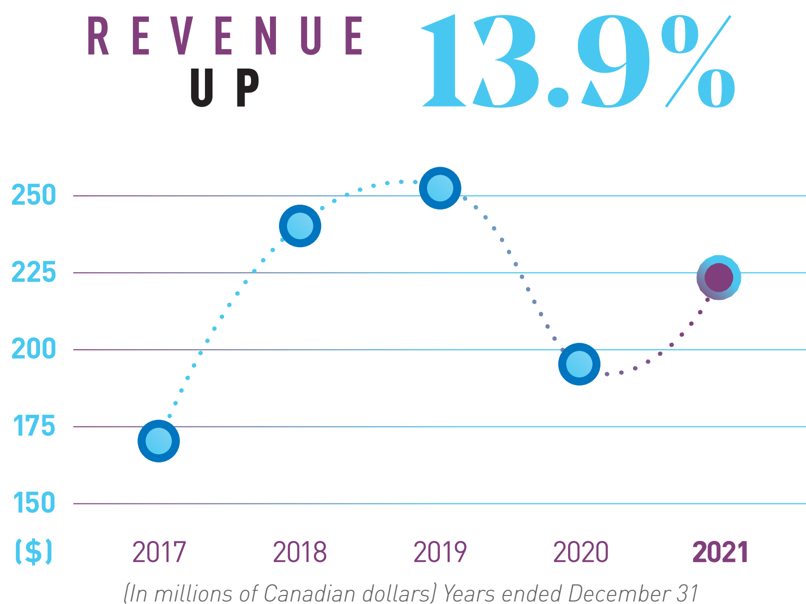
RYO UTAHARA, TREVOR RYE, SCOTT INGLIS, MICHAEL JONES, LUCY RENAUT, DIMITRI HAMM, JACKIE BELANGER, KEVIN STEPHENSON, SEAN JACKSON, ANDREW MACKEEN, KRISTIE PLAQUIN, SEAN CURTIS, JEFF GANNON

"K-Bro's focus on investing for the long term has created a highly efficient, environmentally conscious & cost-effective network across Canada."

FINANCIAL HIGHLIGHTS

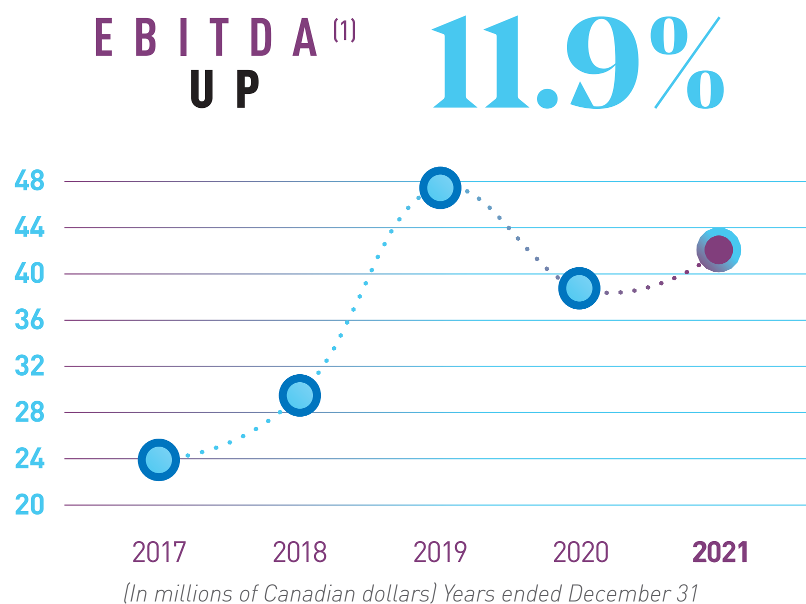
The following unaudited financial data has been derived from K-Bro's consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP. The information set forth below should be read in conjunction with the Management's Discussion & Analysis, Consolidated Financial Statements and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

REVENUE UP 13.9%



(In millions of Canadian dollars) Years ended December 31

EBITDA[1] UP 11.9%



(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 2020 and 2019 figures for both EBITDA and net earnings without adoption of IFRS 16 as separate line items. Refer to the Accounting Changes section of the MD&A for more information.

2 The ongoing COVID-19 pandemic has caused world governments to institute travel restrictions, impacting travel both in and out of Canada and the UK. This 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.

Since mid-March 2020, we have seen significantly reduced hotel occupancy rates compared to historical levels. 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 volumes in all of our Canadian and UK markets have slowed to historically low levels.

Years ended December 31,	2021	2020	2019	2018	2017
Income Statement Data					
Revenue	**223,992**	196,591	252,410	239,534	170,559
EBITDA[1]	**42,791**	38,244	47,573	29,581	23,985
EBITDA (%)[1]	**19.1**	19.5	18.8	12.3	14.1
Net earnings[1]	**8,692**	3,782	10,906	6,169	5,718
Net earnings per share (Diluted)[1]	**0.81**	0.36	1.03	0.59	0.63
Balance Sheet Data					
Working capital	**30,271**	27,922	31,021	34,825	32,008
Long-term debt	**37,973**	40,657	62,494	70,203	42,780
Other Financial Data					
Distributable cash per share	**2.57**	2.94	2.80	2.36	2.20
Payout ratio (%)	**46.8**	40.9	51.1	51.1	55.5
Price to earnings multiple (12 months trailing)	**42.2**	93.0	40.8	56.7	65.6
Price to EBITDA multiple (12 months trailing)	**8.5**	10.8	9.3	11.9	15.7
Return on shareholders' equity (ROE)(%)	**4.7**	2.3	5.6	3.1	2.8
Total shareholder return, YTD (%)	**9.2**	4.5	29.3	16.2	0.9
Total shareholder return, 5 yrs (%)	**2.7**	6.7	1.0	14.5	19.3
Market capitalization	**365,150**	416,078	445,914	351,404	434,211
Share price:					
High	**47.22**	46.44	43.16	41.71	45.00
Low	**33.36**	23.73	32.74	32.00	37.39
Close	**34.20**	38.97	42.05	33.44	41.32

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. Refer to the Accounting Changes section of this MD&A for more information.

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

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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, 2021 and 2020 (the "2020 Audited Financial Statements"), as well as the unaudited interim condensed consolidated financial statements for the periods ended March 31, 2021, June 30, 2021 and September 30, 2021. 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 15, 2022.

In the interest of providing current holders ("Shareholders") of common shares of K-Bro Linen Inc. ("Common Shares") 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 including, without limitation, in connection with the settlement of definitive documentation in respect there of; (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, Quebec, Saskatchewan and the United Kingdom (the "UK"); (ix) the availability of future financing; (x) textile demand; (xi) the adverse impact of the COVID-19 pandemic on the Corporation, which has been significant to date and which we believe will continue to be significant for the short to medium term; (xii) availability and access to labour; (xiii) rising wage rates in all jurisdictions the Corporation operates and (ix) 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; (v) the level of capital expenditures and (vi) the expected impact of the COVID-19 pandemic on the Corporation. 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, 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, as well as statements related to the impact of the COVID-19 pandemic on the Corporation.

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 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. The Corporation has temporarily shut down its facility in Perth as a result of the COVID-19 pandemic.

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:

Generally Stable Industry with Moderate Cyclicality – As evidenced by the stability in the number of approved hospital beds in the healthcare system and hotel rooms in the hospitality industry. The potential for step-changes in volumes and revenues that align with contractual arrangements exists within this industry. Service relationships are generally formalized through contracts in the healthcare sector that are typically long-term (from five to ten years), while contracts in the hospitality sector usually range from two to five years. We note that the ongoing COVID-19 pandemic has introduced atypical instability in both the healthcare and the hospitality sectors which is inconsistent with the historical characteristics of and trends in K-Bro's industry. The continued influence of COVID-19 throughout Canada and the UK, at least in the short-term to medium-term, is expected to have a significant negative impact on the Corporation's 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. Management evaluates M&A opportunities on an ongoing basis and looks to leverage the Corporation's strong liquidity position, balance sheet and access to the capital markets to execute on these opportunities as they arise.

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.

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 services and on site services. K-Bro performs the sterilization of operating room linen packs for six major hospitals in Toronto and the four health authorities in the Vancouver area.

Fourth Quarter Overview

Net earnings for the fourth quarter of 2021 were $1.5 million or $0.14 per Common Share (basic). Cash flow from operating activities for the fourth quarter of 2021 was $7.7 million and distributable cash flow was $6.6 million. Consolidated revenue for the fourth quarter of 2021 increased to $62.2 million or by 23.5% compared to 2020 primarily related to restrictions from the COVID-19 pandemic being eased which drove stronger hospitality client activity and the continued strength of healthcare revenues as a result of the COVID-19 pandemic and the resulting healthcare practice changes. This is offset by repricing of the Corporation's existing business in Edmonton and Calgary with Alberta Health Services ("AHS") which took effect on August 1, 2021 in advance of new rural business being transitioned to the Corporation. The transition of new rural business from AHS commenced in late Q3 2021 and is anticipated to be completed by mid-2022 (see Alberta Contract Award for further details).

EBITDA (see "Terminology") decreased in the fourth quarter to $8.9 million from $11.7 million in 2020, which is a decrease of 23.9%. For the Canadian division, the Corporation recorded EBITDA of $7.8 million during the fourth quarter of 2021 compared to $12.0 million in the fourth quarter of 2020. For the UK division, the Corporation recorded EBITDA of $1.1 million during the fourth quarter of 2021 compared to $-0.2 million in the fourth quarter of 2020. The decrease of $4.2 million in the Canadian division is a result of a reduction in the amount of CEWS subsidy received in the quarter from $0.6 million in Q4 2020 to $0.0 million in Q4 2021, additional labour costs incurred due to exceedingly tight labour markets in certain of the cities in which we operate, repricing of the Corporation's existing business in Edmonton and Calgary with AHS which took effect on August 1, 2021 in advance of new rural business being transitioned to the Corporation, as well as transition costs for the new AHS accounts. For the UK division, the increase in EBITDA of $1.4 million is predominantly driven by increased client activity related to restrictions from the COVID-19 pandemic gradually being eased since Q4 2020. On a consolidated basis, the Corporation's EBITDA margin decreased from 23.3% in 2020 to 14.4% in 2021. For the Canadian division, Q4 EBITDA margin decreased to 16.2% from 26.8% for the comparative quarter of 2020. For the UK division, Q4 EBITDA margin increased to 8.0% from -3.9% for the comparative quarter of 2020.

For the Canadian division, the Canadian Emergency Wage Subsidy ("CEWS") was announced by the Federal Government in response to the COVID-19 pandemic on March 27, 2020, however the program ended as of October 23, 2021. The CEWS program, subsidizes a percentage of employee wages (subject to certain caps) designed for eligible Canadian employers whose businesses have been impacted by the COVID-19 pandemic and is intended to help employers rehire previously laid off workers, retain existing employees, and assist Canadian businesses through the COVID-19 pandemic. The CEWS program allowed the Corporation to preserve a significant number of jobs. Without the benefit of this wage subsidy, the Canadian operations would have taken available alternative actions. During the fourth quarter of 2021, the Corporation did not receive a wage subsidy, compared to 2020 where $0.6 million of the wage subsidy was recognized and had been netted against the respective source of the expense.

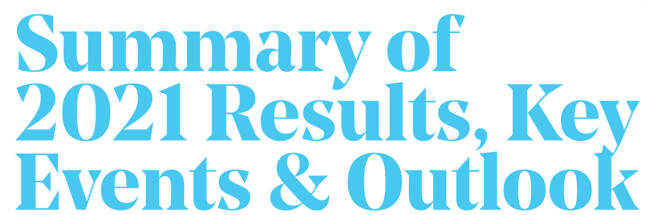
For the UK division, the Corporation was eligible for the Coronavirus Job Retention Scheme ("CJRS") which was introduced by the UK government on March 20, 2020 to pay approximately 80% of salaries for employees (subject to certain caps) who are furloughed, however the program ended as of September 30, 2021. During the fourth quarter of 2021, the Corporation did not receive a wage subsidy compared to Q4 2020 when the Corporation recorded £0.7 million ($1.3 million) of a wage subsidy. The terms of the CJRS required companies share in the cost of the program, and as a result the impact to the Q4 2020 EBITDA was a cost of £69k ($119k) which represents the UK division's contribution for hours and certain benefits. For greater clarity, between April to July 2020 the UK division received an equivalent amount from the government that was then paid to furloughed employees netting to no impact on EBITDA, however starting in August 2020 the UK division was required to make contributions for hours and certain benefits.

Selected Annual Financial Information

($ Thousands of CDN dollars, except percentages and per share amounts)	Canadian Division 2021	UK Division 2021	2021	Canadian Division 2020	UK Division 2020	2020[2]	Canadian Division 2019	UK Division 2019	2019
	Years Ended December 31,								
Revenue	183,073	40,919	**223,992**	166,682	29,909	**196,591**	186,624	65,786	**252,410**
EBITDA[1]	39,678	3,113	**42,791**	38,365	(121)	**38,244**	35,843	11,730	**47,573**
Net earnings (loss)	13,604	(4,912)	**8,692**	10,892	(7,110)	**3,782**	7,787	3,119	**10,906**
Net earnings (loss) per share:									
Basic	1.282	(0.463)	**0.819**	1.032	(0.673)	**0.358**	0.741	0.297	**1.038**
Diluted	1.273	(0.460)	**0.813**	1.025	(0.669)	**0.356**	0.737	0.295	**1.032**
Total assets			**332,519**			**323,811**			**352,059**
Long-term debt (excludes lease liabilities)			**37,973**			**40,657**			**62,494**
Weighted average number of shares outstanding:									
Basic			**10,608,539**			**10,557,147**			**10,508,080**
Diluted			**10,686,187**			**10,629,237**			**10,571,347**

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

2 Q1 2020 includes an adjustment of $5.5 million for an impairment related charge to the Canadian Division.



Summary of 2021 Results, Key Events & Outlook

FINANCIAL GROWTH

Net earnings were $8.7 million or $0.82 per Common Share (basic). Cash flow from operating activities was $31.9 million and distributable cash flow was $27.5 million. Revenue increased in fiscal 2021 to $224.0 million or by 13.9% compared to 2020.

EBITDA (see "Terminology") increased in 2021 to $42.8 million or by 11.9% compared to $38.2 million in 2020. On a consolidated basis, EBITDA margin decreased from 19.5% in 2020 to 19.1% in 2021. For the Canadian division, the EBITDA margin decreased to 21.7% in 2021 from 23.0% in 2020. The decrease in margin is primarily related to lower government assistance received in the Canadian division from $8.3 million received in 2020 to $0.9 million in 2021, additional labour costs incurred due to exceedingly tight labour markets in certain cities in which we operate, repricing of the Corporation's existing business in Edmonton and Calgary with AHS which took effect on August 1, 2021 in advance of new rural business being transitioned to the Corporation, as well as transition costs for the new AHS accounts. This is offset by a goodwill impairment charge included in 2020 in the amount of $5.5 million restructuring costs of $1.6 million and bad debts expense of $0.5 million in 2020.

For the UK division, the EBITDA margin increased to 7.6% in 2021 from -0.4% in 2020. The UK division also received government assistance during 2021 in the amount of £1.6 million ($2.8 million) which has been netted against the respective source of the expense. Government assistance received by the UK division through the CJRS from third quarter of 2020 and onwards required that companies share in the cost of the program and as a result the impact to EBITDA during 2021 was a cost of £141k ($245k), which represents the UK division's contribution for hours and certain benefits. The increase in margin is primarily related to restrictions from the COVID-19 pandemic being eased which drove stronger hospitality client activity.

Near-Term & Long-Term Growth & Margin Impact

In 2019, management completed its strategy in its Toronto and Vancouver markets that it believes will position K-Bro for long-term 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 long-term growth and a lower cost structure in the future and that K-Bro will ultimately return to normalized margins upon resolution of the 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 to medium-term, is expected to have a significant negative impact on the amount of hospitality volume processed by the Corporation. To date the Corporation has seen an increased demand on the healthcare portion of the business as a result of practice changes within the hospitals. Dependent on the duration of the pandemic, management believes that the Corporation's capital investments in Vancouver and Toronto could position the Corporation to profitably grow the business, for example as hotel occupancy rates rebound upon resolution of the public health crisis.

KEY EVENTS IN OUR MARKETS ARE SUMMARIZED BELOW

Alberta Contract Award

In October 2020, AHS issued a request for proposal for linen services (the "AHS RFP"). The AHS RFP encompassed the linen services provided by the Corporation to AHS under its AHS Calgary contract, as well as the linen services provided by the Corporation to AHS in Edmonton, for which volumes were under contract as part of two existing agreements until 2022 and 2023 respectively. The AHS RFP also included new volume for additional rural and urban locations in Alberta.

On April 27, 2021, the Corporation was selected to provide laundry services for Alberta Health Services ("AHS") for the entire province. The award is the result of a competitive RFP process and extends K-Bro's existing relationships with AHS.

On July 26, 2021, the Corporation announced the signing of a new 11-year contract, with renewal options for up to an additional 9 years, to provide laundry and linen services for AHS province-wide. The contract is anticipated to add approximately $10.0 million in incremental annual revenue. The Corporation will continue to incur one-time transition costs and have temporary margin impacts as the new volume is transitioned into the Corporation's two facilities in Edmonton and Calgary. It is anticipated that the Corporation will return to normalized margins once the transition is complete in mid-2022. Capital expenditures are projected in the amount of approximately $10 million for new linen carts and additional equipment to support the additional volumes.

The award renews all of K-Bro's existing volume in Edmonton and Calgary and awards additional healthcare volume for other sites in Alberta. The new volume will be serviced from K-Bro's existing state-of-the-art facilities in Edmonton and Calgary. The transition of new rural business from AHS commenced in late Q3 2021 and is anticipated to be completed by mid-2022.

British Columbia Contract Award

On September 1, 2020 the Corporation was awarded a five-year extension to provide healthcare laundry and linen services to part of the Lower Mainland. The contract extends the existing relationship between the Corporation and Business Initiatives & Support Services (BISS) for Vancouver Coastal Health, Fraser Health, Providence Health Care and Provincial Health Services Authority.

Revolving Credit Facility

On June 30, 2021, the Corporation completed amendments to its existing revolving credit facility, which extended the agreement to July 31, 2024 from July 31, 2022.

During 2020, in consideration of the ongoing COVID-19 pandemic, management requested temporary changes to the terms and conditions of the credit facility, which were as follows:

- An increased Funded Debt to EBITDA covenant for the period of September 30, 2020 to June 30, 2021 which gradually allows for a maximum Funded Debt to EBITDA ratio of 4.5x for Q4 2020 and Q1 2021 including certain one-time add backs to EBITDA.
- A reduction to the Fixed Charge Covenant for the period of September 30, 2020 to June 30, 2021 which reduces to a maximum of 1.1x.
- A restriction on any further dividend increases during the covenant relief period of July 1, 2020 to June 30, 2021.

These temporary covenant changes as well as the restriction on dividends expired on June 30, 2021 and the Corporation must now observe a maximum Funded Debt to EBITDA covenant of 3.25x and a maximum Fixed Charge covenant of 1.2x.

Capital Investment Plan

For fiscal 2022, the Corporation's planned capital spending is expected to be approximately $5.0 million on a consolidated basis. This guidance includes both strategic and maintenance capital requirements to support existing base business in both Canada and the UK and does not take into account amounts accrued in 2021 that are to be paid in 2022, nor does this account for the projected $10.0 million in additional capital expenditures to support the new AHS business that was announced earlier in 2021 and is discussed above under the Alberta Contract Award. We will continue to assess capital needs within our facilities and prioritize projects that have shorter term paybacks as well as those that are required to maintain efficient and reliable operations.

COVID-19 Pandemic

The ongoing COVID-19 pandemic caused world governments to institute travel restrictions, impacting travel both in and out of Canada and the UK. Beginning in mid-March 2020, we saw significantly reduced hotel occupancy rates compared to historical levels. Demand for both business and leisure airline travel declined significantly on a global basis, and airlines responded by cancelling international and domestic flights. Accordingly, hospitality volumes in all of our Canadian and UK markets slowed to historically low levels. However in mid-2021 as government restrictions began to ease the hospitality segment began to show strong recovery which is expected to continue.

In late Q1 2020 and into Q2 2020 we initially saw decreases in our healthcare business as a result of hospitals and health authorities taking measures to prepare for anticipated surges in COVID-19 related occupancy (i.e., cancellation of elective surgeries). Since then however, we have continued to see healthcare revenues trend consistently above historical levels due to increased demand. We cannot predict with certainty how the progression of COVID-19 will impact overall volumes going forward.

The following table depicts the impact of the COVID-19 pandemic on the Corporation's revenue for 2020 and 2021.

Month	Healthcare Revenue Change (2020 compared to 2019)	Hospitality Revenue Change (2020 compared to 2019)	Consolidated Revenue Change (2020 compared to 2019)
January	3%	7%	5%
February	5%	7%	6%
March	0%	-27%	-12%
Q1 2020 compared to Q1 2019 (Jan to Mar)	**3%**	**-6%**	**-1%**
April	-8%	-94%	-45%
May	2%	-92%	-39%
June	9%	-90%	-40%
Q2 2020 compared to Q2 2019 (Apr to Jun)	**1%**	**-92%**	**-41%**
July	13%	-76%	-29%
August	12%	-59%	-23%
September	12%	-53%	-20%
Q3 2020 compared to Q3 2019 (Jul to Sep)	**12%**	**-63%**	**-24%**
October	12%	-61%	-20%
November	19%	-69%	-18%
December	24%	-78%	-22%
Q4 2020 compared to Q4 2019 (Oct to Dec)	**18%**	**-69%**	**-20%**
YTD	**9%**	**-60%**	**-22%**

Month	Healthcare Revenue Change (2021 compared to 2019)	Hospitality Revenue Change (2021 compared to 2019)	Consolidated Revenue Change (2021 compared to 2019)
January	25%	-80%	-14%
February	26%	-82%	-19%
March	28%	-80%	-20%
Q1 2021 compared to Q1 2019 (Jan to Mar)	**26%**	**-81%**	**-18%**
April	24%	-81%	-22%
May	21%	-69%	-19%
June	22%	-49%	-13%
Q2 2021 compared to Q2 2019 (Apr to Jun)	**23%**	**-66%**	**-18%**
July	16%	-40%	-11%
August	11%	-30%	-9%
September	12%	-28%	-8%
Q3 2021 compared to Q3 2019 (Jul to Sep)	**13%**	**-33%**	**-9%**
October	12%	-28%	-5%
November	19%	-23%	1%
December	20%	-23%	1%
Q4 2021 compared to Q4 2019 (Oct to Dec)	**17%**	**-25%**	**-1%**
YTD	**20%**	**-49%**	**-11%**

Although the Corporation has developed and implemented measures to mitigate the effects of the COVID-19 pandemic which include, temporary restructuring through consolidating operations, reducing headcount, reducing certain capital expenditures and accessing available government assistance programs, earnings will continue to be particularly affected if we continue to experience reductions in travel and reduced hospitality and healthcare occupancy rates. The extent of such negative effects on our business and our financial and operational performance will depend on future developments, including the duration, spread and severity of outbreaks, the availability and effectiveness of the vaccine, the duration and geographic scope of related travel advisories and restrictions and the extent of the impact of the COVID-19 pandemic 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, our consolidated results of operations will be significantly impacted. 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.

As an ongoing risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, and continues to be offset through the Corporation's business continuity plan and other mitigating measures. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and, accordingly, estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Corporation's

operations, financial results and condition in future periods are also subject to significant uncertainty.

Therefore, uncertainty about judgments, estimates and assumptions made by management during the preparation of the Corporation's interim condensed consolidated financial statements related to potential impacts of the COVID-19 pandemic on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the assets or liabilities affected.

Impairment of Assets

(a) Impairment Testing at December 31, 2021

The Corporation performed its annual assessment for goodwill impairment for the Canadian division and for the UK division as at December 31, 2021 in accordance with its policy described in Note 2(k).

At December 31, 2021, the recoverable amount for the CGUs was determined using either a probability-weighted discounted cash flow approach (hospitality CGUs) or an earnings multiple approach (healthcare CGUs). The Corporation references Board approved budgets and cash flow forecasts, trailing twelve-month EBITDA, implied multiples and appropriate discount rates in the valuation calculations.

For the healthcare CGUs whereby the earnings multiple approach is used the implied multiple is calculated by utilizing the average multiples of comparable public companies. For the healthcare CGU's, the Corporation used implied average forward multiple of 10.80 to calculate the recoverable amounts. For these CGUs, based on testing performed at December 31, 2021 no impairment was determined to exist.

For the hospitality CGUs the probability weighted discounted cash flow approach was used at both March 31, 2020, December 31, 2020 and December 31, 2021 to capture the increased risk and uncertainty arising from COVID-19.

For the December 31, 2021 impairment test, management's probability weighted approach was evaluated based on an equally weighted probability of a continued one year downturn in sales to the worst case scenario of a two year downturn in sales. The scenarios estimated a decline of 5% to 25% for 2022, and 0% to 10% for 2023, with sales returning to normalized levels thereafter with sales growth estimates used 2%. For the December 31, 2020 impairment test, management's probability weighted approach was evaluated based on an equally weighted probability of a continued two year downturn in sales to the worst case of a three year downturn in sales. The scenarios estimated a decline of 45% for 2021, 30% for 2022, and 5% for 2023 with sales returning to normalized levels thereafter with sales growth estimates used 2%. This contrasts to the March 31, 2020 impairment test which contemplated a decline in 2020 and 2021 revenues only.

As at December 31, 2021 for the goodwill associated with the remaining hospitality CGUs (the UK Division, Vancouver 2 and Victoria) the recoverable amounts was estimated to be £53,083, $31,176 and $8,290 (2020- £41,070, $21,300 and $6,484) respectively which exceeded the carrying amounts of the CGUs. No further impairment was therefore required for any of these CGUs.

The key assumptions in calculating the recoverable amount of the remaining CGU's were as follows:

	December 31, 2021	December 31, 2020
Long-term growth rate %	2.0%	2.0%
Pre-tax discount rate %	13.8% to 16.2%	11.6% to 12.5%

In addition to the key assumptions noted above, management has also evaluated other reasonable changes in estimates and assumptions and did not identify any other instances that could cause the carrying amount of these CGUs to exceed the recoverable amount. The table below summarizes the sensitivity of the key assumptions.

		Sensitivity	
	Recoverable Amount	Long-Term Growth Rate Decrease of 1%	Pre-Tax Discount Rate Increase of 1%
UK Division	£53,083	-£4,988	-£4,915
Vancouver 2	$31,176	-$2,818	-$3,152
Victoria	$8,290	-$834	-$770

The Corporation will continue to carefully monitor the situation as it pertains to the COVID-19 pandemic and further consider if there are new, or additional indicators, that exist during fiscal 2022.

With the ongoing evolution of the COVID-19 pandemic, the length and severity of these developments is subject to significant uncertainty. Accordingly, new developments may materially and adversely affect assumptions used in the consideration of the impairment of assets, impact whether a CGU has been impaired, and may change prior recorded impairment amounts.

(b) Impairment Testing at March 31, 2020

Management assessed that impairment indicators existed at March 31, 2020, specifically for the five CGUs that rely primarily on hospitality revenues as a result of the significant impact that COVID-19 had on the hospitality industry.

For the five CGUs who rely primarily on hospitality revenues an impairment test was completed using a probability-weighted discounted cash flow approach whereby the recoverable amount was based on 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).

The key assumptions in calculating the recoverable amount of the five CGU's were as follows:

	March 31, 2020
Long-term growth rate %	2.0% to 3.0%
Pre-tax discount rate %	10.5% to 12.5%

For the March 31, 2020 impairment test, management's probability weighted approach was evaluated based on an equally weighted probability of a one-year downturn in sales to the worst case of a two year downturn in sales. The scenarios estimated a decline of 70% for 2020 and 50% for 2021, with sales returning to normalized levels thereafter with sales growth estimates used between 2% to 3%.

As a result of this testing at March 31, 2020, an impairment loss of $5,516 was recognized for three CGUs in the Canadian division, of which $3,177 was allocated to goodwill and $2,339 was allocated to PP&E. The table below summarizes the impairment details:

GCU	Allocated to Goodwill	Allocated to PP&E	Total Impairment Recorded	Recoverable Amount
Montréal	$823	-	$823	$2,485
Québec	$654	$2,339	$2,993	$(1,917)
Victoria	$1,700	-	$1,700	$5,433
	$3,177	$2,339	$5,516	$6,001

Outlook

The Corporation's healthcare segment continues to outperform relative to historical levels. For the hospitality segment, management expects that the current trend towards loosening restrictions on international border crossings and increasing business/leisure travel will continue to support the strong recovery momentum in hospitality revenues experienced since mid-2021. For the last few quarters, management has been focused on operational efficiencies and the transition of the new AHS business which is expected to be completed in mid-2022. From an input cost perspective, since early March 2022, particularly in the UK, the Corporation has faced significant volatility in the cost of natural gas due to current geopolitical issues. As a result of this instability, based on current natural gas supply rates, we anticipate natural gas as a percent of revenue to increase 3 percentage points from historical levels for 2022 (assuming average pricing of £0.1190 per kwh in the UK were to remain in effect for the balance of the year). We expect to mitigate these cost increases with price increases to our customers although there could be some lag. Management is confident that the combination of these factors, a relief in the temporarily tight labour markets in certain cities in which K-Bro operates and potential stabilization of natural gas rates will contribute to a strong 2022.

In addition, management continues to evaluate opportunities to accelerate growth through M&A opportunities in both North America and Europe, which remain highly fragmented. K-Bro will look to leverage its strong liquidity position, balance sheet and access to the capital markets to execute on these opportunities, should they arise. For further information about the impact of the COVID-19 pandemic on our business, see the "Summary of 2021 Results, and Key Events".

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:

		Three Months Ended December 31,					
($ Thousands of CDN dollars, except percentages and per share amounts) **Category**	**Indicator**	**Canadian Division 2021**	**UK Division 2021**	**2021**	**Canadian Division 2020**	**UK Division 2020**	**2020**
Growth	EBITDA[1]	-34.8%	608.9%	**-23.9%**	36.8%	-109.5%	5.6%
	Revenue	7.8%	144.9%	**23.5%**	-3.1%	-65.8%	-19.9%
	Distributable cash flow			**-4.2%**			-2.2%
Profitability	EBITDA[1]	7,788	1,140	**8,928**	11,951	(224)	11,727
	EBITDA margin	16.2%	8.0%	**14.4%**	26.8%	-3.9%	23.3%
	Net earnings (loss)	2,043	(544)	**1,499**	4,500	(2,365)	2,135
Stability	Debt to total capital[4]			**17.0%**			17.9%
	Unutilized line of credit			**59,638**			58,693
	Cash on hand			**1,110**			2,416
	Payout ratio			**48.8%**			46.5%
	Dividends declared per share			**0.300**			0.300
Cost containment	Wages and benefits	39.9%	37.9%	**39.5%**	32.5%	41.7%	33.5%
	Utilities	6.3%	7.4%	**6.6%**	5.2%	13.7%	6.2%
	Expenses included in EBITDA	83.8%	92.0%	**85.6%**	73.2%	103.9%	76.7%

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

2 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.

3 Q1 2020 includes an adjustment of $5.5 million for an impairment related charge to the Canadian Division.

4 Debt to total capital is defined by management as the total long term debt (excludes lease liabilities) divided by the Corporation's total capital. See "Terminology".

($ Thousands of CDN dollars, except percentages and per share amounts)		Years Ended December 31,					
Category	**Indicator**	**Canadian Division 2021**	**UK Division 2021**	**2021**	**Canadian Division 2020**	**UK Division 2020**	**2020**
Growth	EBITDA[1]	3.4%	-2672.7%	**11.9%**	7.0%	-101.0%	-19.6%
	Revenue	9.8%	36.8%	**13.9%**	-10.7%	-54.5%	-22.1%
	Distributable cash flow			**-12.1%**			5.6%
Profitability	EBITDA[1]	39,678	3,113	**42,791**	38,365	(121)	38,244
	EBITDA margin	21.7%	7.6%	**19.1%**	23.0%	-0.4%	19.5%
	Net earnings (loss)	13,604	(4,912)	**8,692**	10,892	(7,110)	3,782
Stability	Debt to total capital[4]			**17.0%**			17.9%
	Unutilized line of credit			**59,638**			58,693
	Cash on hand			**1,110**			2,416
	Payout ratio			**46.8%**			40.9%
	Dividends declared per share			**1.200**			1.200
Cost containment	Wages and benefits	37.4%	40.1%	**37.9%**	32.9%	42.6%	34.4%
	Utilities	5.7%	7.8%	**6.0%**	5.3%	9.6%	5.9%
	Expenses included in EBITDA	78.3%	92.4%	**80.9%**	77.0%	100.4%	80.5%

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

2 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.

3 Q1 2020 includes an adjustment of $5.5 million for an impairment related charge to the Canadian Division.

4 Debt to total capital is defined by management as the total long term debt (excludes lease liabilities) divided by the Corporation's total capital. See "Terminology".

QUARTERLY FINANCIAL INFORMATION - CONSOLIDATED

Historically, the Corporation's financial and operating results, particularly in respect of 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 management for the preceding eight quarters:

Quarterly Financial Information - Consolidated *($ Thousands of CDN dollars, except percentages and per share amounts)*	2021				2020[2]			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	41,554	39,227	42,712	43,058	41,981	39,071	35,103	35,048
Hospitality revenue	20,656	22,266	9,963	4,556	8,376	12,368	2,417	22,227
Total revenue	62,210	61,493	52,675	47,614	50,357	51,439	37,520	57,275
Expenses included in EBITDA	53,282	49,896	40,470	37,553	38,630	38,720	27,465	53,532
EBITDA[1]	8,928	11,597	12,205	10,061	11,727	12,719	10,055	3,743
EBITDA as a % of revenue (EBITDA margin)	14.4%	18.9%	23.2%	21.1%	23.3%	24.7%	26.8%	6.5%
Depreciation and amortization	6,628	6,784	6,710	6,740	7,110	6,840	6,853	7,081
Finance expense	800	883	901	865	836	1,141	791	1,193
Earnings (loss) before income taxes	1,500	3,930	4,594	2,456	3,781	4,738	2,411	(4,531)
Income tax expense (recovery)	1	1,782	1,183	822	1,646	1,296	798	(1,123)
Net earnings (loss)	1,499	2,148	3,411	1,634	2,135	3,442	1,613	(3,408)
Net earnings (loss) as a % of revenue	2.4%	3.5%	6.5%	3.4%	4.2%	6.7%	4.3%	-6.0%
Basic earnings (loss) per share	0.141	0.202	0.322	0.154	0.202	0.326	0.153	(0.323)
Diluted earnings (loss) per share	0.140	0.201	0.320	0.153	0.200	0.323	0.152	(0.322)
Total assets	332,519	330,494	326,157	316,101	323,811	338,591	330,372	336,127
Total long-term financial liabilities	102,617	97,582	100,306	89,343	95,555	113,278	108,207	106,621
Funds provided by (used in) operations	7,743	12,543	3,047	8,542	25,023	(504)	6,289	11,588
Long-term debt (excludes lease liabilities)	37,973	38,270	40,696	36,811	40,657	59,325	56,416	54,693
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, and depreciation and amortization). See "Terminology".

2 Q1 2020 includes an adjustment of $5.5 million for an impairment related charge to the Canadian Division.

QUARTERLY FINANCIAL INFORMATION - CANADIAN DIVISION

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

Quarterly Financial Information - Canadian Division *($ Thousands of CDN dollars, except percentages and per share amounts)*	2021				2020[2]			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	39,835	37,564	41,107	41,432	40,305	37,417	33,598	33,395
Hospitality revenue	8,211	8,605	3,049	3,270	4,268	5,628	1,755	10,316
Total revenue	48,046	46,169	44,156	44,702	44,573	43,045	35,353	43,711
Expenses included in EBITDA	40,258	36,659	32,734	33,744	32,622	30,999	23,779	40,917
EBITDA[1]	7,788	9,510	11,422	10,958	11,951	12,046	11,574	2,794
EBITDA as a % of revenue (EBITDA margin)	16.2%	20.6%	25.9%	24.5%	26.8%	28.0%	32.7%	6.4%
Net earnings (loss)	2,043	2,944	4,460	4,157	4,500	4,404	4,460	(2,472)
Net earnings (loss) as a % of revenue	4.3%	6.4%	10.1%	9.3%	10.1%	10.2%	12.6%	-5.7%
Basic earnings (loss) per share	0.192	0.277	0.421	0.392	0.426	0.417	0.423	(0.235)
Diluted earnings (loss) per share	0.191	0.275	0.418	0.390	0.422	0.413	0.420	(0.233)

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 Q1 2020 includes an adjustment of $5.5 million for an impairment related charge to the Canadian Division.

QUARTERLY FINANCIAL INFORMATION - UK DIVISION

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

Quarterly Financial Information - UK Division
(in reporting currency Canadian $)
($ Thousands of CDN dollars, except percentages and per share amounts)

	2021				2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	1,719	1,663	1,605	1,626	1,676	1,654	1,505	1,653
Hospitality revenue	12,445	13,661	6,914	1,286	4,108	6,740	662	11,911
Total revenue	14,164	15,324	8,519	2,912	5,784	8,394	2,167	13,564
Expenses included in EBITDA	13,024	13,237	7,736	3,809	6,008	7,721	3,686	12,615
EBITDA[1]	1,140	2,087	783	(897)	(224)	673	(1,519)	949
EBITDA as a % of revenue (EBITDA margin)	8.0%	13.6%	9.2%	-30.8%	-3.9%	8.0%	-70.1%	7.0%
Net loss	(544)	(796)	(1,049)	(2,523)	(2,365)	(962)	(2,847)	(936)
Net loss as a % of revenue	-3.8%	-5.2%	-12.3%	-86.6%	-40.9%	-11.5%	-131.4%	-6.9%
Basic loss per share	(0.051)	(0.075)	(0.099)	(0.238)	(0.224)	(0.091)	(0.270)	(0.089)
Diluted loss per share	(0.051)	(0.074)	(0.098)	(0.237)	(0.222)	(0.090)	(0.268)	(0.088)

Quarterly Financial Information - UK Division
(in local currency Sterling £)
(Thousands, except percentages and per share amounts)

	2021				2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	1,011	959	935	931	974	961	875	962
Hospitality revenue	7,325	7,877	4,028	737	2,388	3,916	385	6,931
Total revenue	8,336	8,836	4,963	1,668	3,362	4,877	1,260	7,893
Expenses included in EBITDA	7,665	7,633	4,505	2,181	3,492	4,487	2,140	7,343
EBITDA[1]	671	1,203	458	(513)	(130)	390	(880)	550
EBITDA as a % of revenue (EBITDA margin)	8.0%	13.6%	9.2%	-30.8%	-3.9%	8.0%	-69.8%	7.0%
Net loss	(321)	(458)	(610)	(1,444)	(1,376)	(559)	(1,653)	(546)
Net loss as a % of revenue	-3.9%	-5.2%	-12.3%	-86.6%	-40.9%	-11.5%	-131.2%	-6.9%
Basic loss per share	(0.030)	(0.043)	(0.058)	(0.136)	(0.130)	(0.053)	(0.157)	(0.052)
Diluted loss per share	(0.030)	(0.043)	(0.057)	(0.135)	(0.129)	(0.052)	(0.156)	(0.052)

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".

REVENUE, EARNINGS & EBITDA

For the year ended December 31, 2021, K-Bro's consolidated revenue increased by 13.9% to $224.0 million from $196.6 million in the comparative period. This increase was primarily a result of COVID-19 pandemic restrictions being eased. In 2021, approximately 74.4% of K-Bro's consolidated revenue was generated from healthcare institutions, which is lower compared to 76.9% in 2020, primarily related to the COVID-19 pandemic's effect on the hospitality segment.

Consolidated EBITDA increased in the year to $42.8 million from $38.2 million in 2020, which is an increase of 11.9%. The consolidated EBITDA margin decreased to 19.1% in 2021 compared to 19.5% in 2020. The decrease in margin is primarily related to lower government assistance received in the Canadian division of $0.9 million in 2021 compared to $8.3 million in 2020, offset by the impairment of assets of $5.5 million in the first quarter of 2020, restructuring costs of $1.6 million and bad debts expense of $0.5 million in 2020. As well as additional labour costs incurred due to exceedingly tight labour markets in certain cities in which we operate, repricing of the Corporation's existing business in Edmonton and Calgary with AHS which took effect on August 1, 2021 in advance of new rural business being transitioned to the Corporation, as well as transition costs for the new AHS accounts.

The UK division also received government assistance during 2021 in the amount of £1.6 million ($2.8 million) which has been netted against the respective source of the expense. Beginning in the third quarter of 2020 onwards, government assistance received by the UK division through the CJRS required that companies share in the cost of the program and as a result the impact to EBITDA during 2021 was a cost of £141k ($245k), which represents the UK division's contribution for hours and certain benefits.

Net earnings increased by $4.9 million or 129.8% from $3.8 million in 2020 to $8.7 million in 2021, and net earnings as a percentage of revenue increased by 2.0% to 3.9% in 2021 from 1.9% in 2020. The change in net earnings is primarily related to the flow through items in EBITDA discussed above, lower finance costs related to the revolving credit facility, and higher income tax expense.

OPERATING EXPENSES

Wages and benefits increased by $17.2 million to $84.8 million compared to $67.6 million in the comparative period of 2020, and as a percentage of revenue increased by 3.5% to 37.9%. The increase as a percentage of revenue is primarily related to a $6.2 million decrease in government assistance received in the Canadian division, escalating minimum wage rates, and inefficiencies associated with lack of labour workforce availability and the transitioning of the new AHS business, offset by restructuring costs of $1.1 million incurred in 2020 related to COVID-19 volumes.

Linen increased by $3.1 million to $27.9 million compared to $24.8 million in the comparative period of 2020, and as a percentage of revenue remained relatively constant at 12.5%. The increase in spending is primarily related to the additional healthcare and hospitality volumes processed compared to the prior year.

Utilities increased by $1.9 million to $13.5 million compared to $11.6 million in the comparative period of 2020, and as a percentage of revenue remained relatively constant at 6.0%. The increase in spending is primarily related to the additional healthcare and hospitality volumes processed compared to the prior year.

Delivery increased by $4.0 million to $24.7 million compared to $20.7 million in the comparative period of 2020, and as a percentage of revenue increased by 0.5% to 11.0%. The increase as a percentage of revenue is primarily related to a $0.7 million decrease in government assistance received in the Canadian division, offset by management's efforts to offset the impact of COVID-19 in the delivery operations of each plant through temporary reductions in the delivery labour force, logistics and delivery route optimizations.

Occupancy costs increased by $0.3 million to $3.9 million compared to $3.6 million in the comparative period of 2020, and as a percentage of revenue remained relatively constant at 1.7%. This includes fixed costs that remain constant regardless of the reduction in volume resulting from the COVID-19 pandemic, offset by rent concessions received in certain plants in the UK in the amount of $0.5 million recorded in the second quarter of 2020.

Materials and supplies increased by $2.1 million to $9.1 million compared to $7.0 million in the comparative period of 2020, and as a percentage of revenue increased by 0.5% to 4.1%. The increase as a percentage of revenue is primarily related to higher chemical costs due to changes in the mix of volume resulting from the COVID-19 pandemic.

Repairs and maintenance increased by $0.7 million to $7.7 million compared to $7.0 million in the comparative period of 2020, and as a percentage of revenue remained relatively constant at 3.4%. The increase in spending is primarily related to the additional healthcare and hospitality volumes processed compared to the prior year.

Corporate costs decreased by $1.0 million to $9.5 million compared to $10.5 million in the comparative period of 2020, and as a percentage of revenue decreased by 1.2% to 4.2%. The decrease as a percentage of revenue is primarily related to the decrease in spending is primarily related to a 2020 provision for bad debt expense of $0.5 million, 2020 restructuring costs of $0.5 million, the timing of initiatives to support the Corporation's growth and business strategies across the plants, and offset by a $0.5 million decrease in government assistance received in the Canadian division.

Depreciation of property, plant and equipment and amortization of intangible assets represents the expense related to the appropriate matching of the Corporation's long-term assets to the estimated useful life and period of economic benefit of those assets.

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 2021, cash generated by operating activities was $31.9 million with a debt to total capitalization of 17.0%. The change in cash from operations is primarily due to the change in working capital items driven mainly from the impact of the COVID-19 pandemic, and the timing of trade payables and collection of cash receipts from customers. The Corporation's capital structure includes working capital, a committed revolving credit facility and share capital. We continuously monitor actual and forecast cash flows and monitor the availability on our committed credit facility. Management believes the unutilized balance of $59.6 million with respect to its revolving credit facility is sufficient for the Corporation's operations in the foreseeable future. However, management intends to continually assess its opportunities to maintain a conservative amount of leverage and balance sheet flexibility in the short and long-term basis in order to ensure that sufficient capital is available for future growth needs.

During 2021, cash used in financing activities was $22.7 million compared to $40.8 million in 2020. Financing activities consisted of net repayment of the revolving credit facility, dividends paid to Shareholders and principal elements of lease payments.

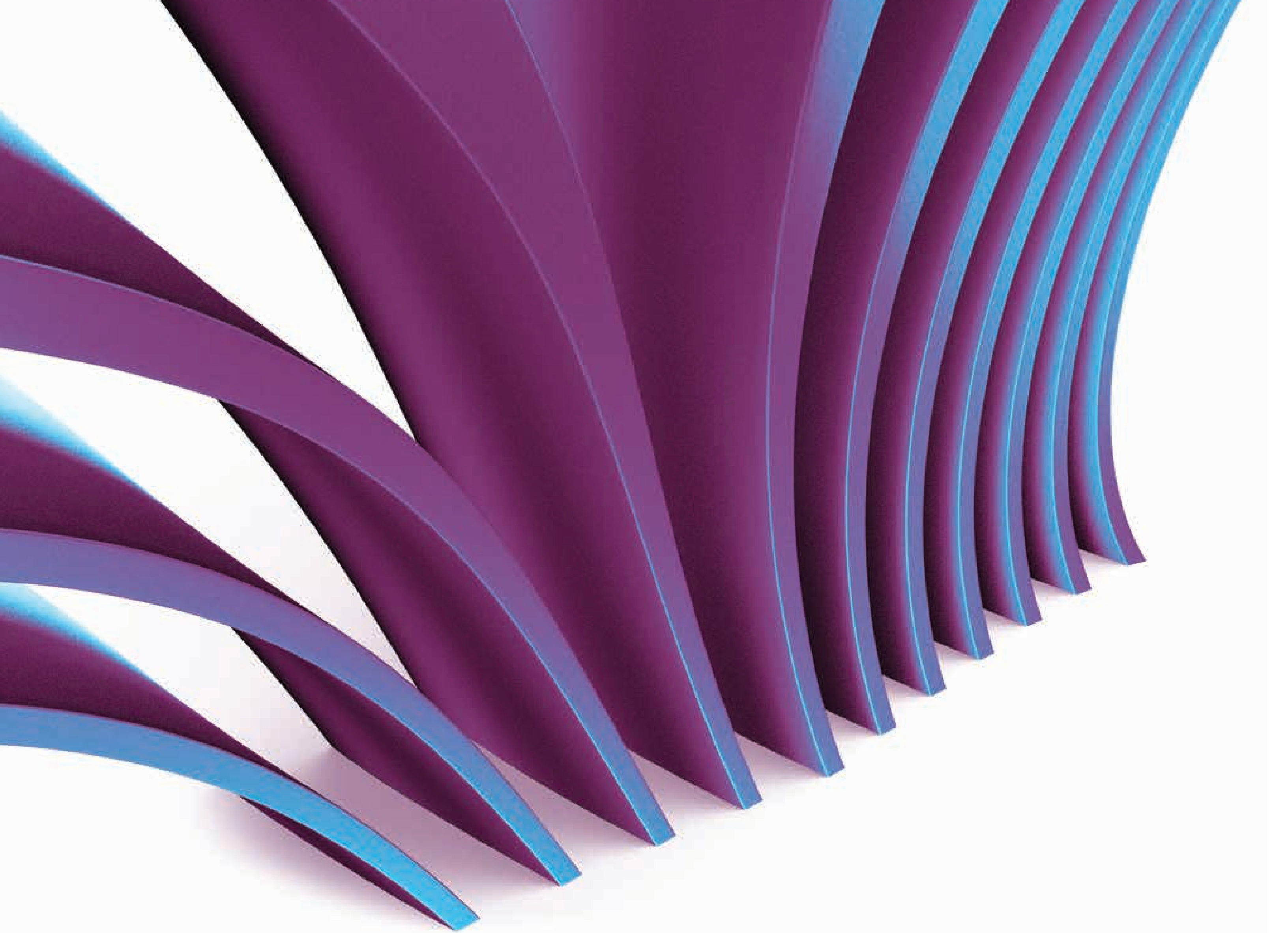
During 2021, cash used in investing activities was $10.5 million compared to $4.4 million in 2020. Investing activities are primarily related to the purchase of plant equipment.

CONTRACTUAL OBLIGATIONS

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

	Payments Due by Period				
($ Thousands of CDN dollars)	**Total**	**2022**	**2023 to 2024**	**2025 to 2026**	**Subsequent**
Long-term debt	37,973	-	37,973	-	-
Lease liabilities	69,804	9,242	16,361	13,844	30,357
Utility commitments	18,601	7,716	7,032	3,853	-
Linen purchase obligations	12,075	12,075	-	-	-
Property, plant and equipment commitments	445	445	-	-	-

The lease liabilities are secured by automotive equipment and plants and are more fully described in the Corporation's audited annual consolidated financial statements for the year ended December 31, 2021. 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)	Years Ended December 31, 2021	2020
Cash and cash equivalents	(1,110)	(2,416)
Long-term debt (excludes lease liabilities)	37,973	40,657
Shareholders' equity	186,401	189,504
Total capital	**223,264**	**227,745**
Debt to total capital (see *Terminology* for definition)	**17.0%**	**17.9%**

For the period ended December 31, 2021, the Corporation had a debt to total capital of 17.0%, unused revolving credit facility of $59.6 million and has not incurred any events of default under the terms of its credit facility.

As at December 31, 2021, the Corporation had net working capital of $30.3 million compared to its working capital position of $27.9 million at December 31, 2020. The increase in working capital is primarily attributable to additional requirements driven mainly from the impact of the COVID-19 pandemic, and the timing of receivables collections.

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	2021 Amount Per Share	2021 Total Amount (1)(3)(5)(7)	2020 Amount Per Share	2020 Total Amount (2)(4)(6)(8)
January	February 12	10,676,889	0.10000	1,068	0.10000	1,060
February	March 15	10,676,889	0.10000	1,068	0.10000	1,060
March	April 15	10,676,889	0.10000	1,068	0.10000	1,060
Q1			**0.30000**	**3,203**	**0.30000**	**3,181**
April	May 14	10,676,889	0.10000	1,068	0.10000	1,060
May	June 15	10,718,810	0.10000	1,072	0.10000	1,068
June	July 15	10,718,810	0.10000	1,072	0.10000	1,068
Q2			**0.30000**	**3,211**	**0.30000**	**3,196**
July	August 13	10,718,810	0.10000	1,072	0.10000	1,068
August	September 15	10,719,778	0.10000	1,072	0.10000	1,068
September	October 15	10,719,778	0.10000	1,072	0.10000	1,068
Q3			**0.30000**	**3,216**	**0.30000**	**3,203**
October	November 15	10,719,778	0.10000	1,072	0.10000	1,068
November	December 15	10,719,778	0.10000	1,072	0.10000	1,068
December	January 14	10,719,778	0.10000	1,072	0.10000	1,068
Q4			**0.30000**	**3,216**	**0.30000**	**3,203**
YTD			**1.20000**	**12,846**	**1.20000**	**12,783**

1 The total amount of dividends declared were $0.10000 per share for a total of $1,067,689 per month for January - March 2021; when rounded in thousands, $3,203 of dividends were declared in Q1 2021.

2 The total amount of dividends declared were $0.10000 per share for a total of $1,060,438 per month for January - March 2020; when rounded in thousands, $3,181 of dividends were declared in Q1 2020.

3 The total amount of dividends declared were $0.10000 per share for a total of $1,067,689 for April 2021, $1,071,881 for May 2021, and $1,071,881 for June 2021 When rounded in thousands, $3,211 of dividends were declared in Q2 2021.

4 The total amount of dividends declared were $0.10000 per share for a total of $1,060,438 for April 2020, $1,067,689 for May 2020, and $1,067,689 for June 2020. When rounded in thousands, $3,196 of dividends were declared in Q2 2020.

5 The total amount of dividends declared was $0.10000 per share for a total of $1,071,881 for July 2021, $1,071,978 for August 2021, and $1,071,978 for September 2021. When rounded in thousands, $3,216 of dividends were declared in Q3 2021.

6 The total amount of dividends declared was $0.10000 per share for a total of $1,067,689 per month for July - September 2020; when rounded in thousands, $3,203 of dividends were declared in Q3 2020.

7 The total amount of dividends declared was $0.10000 per share for a total of $1,071,881 per month for October - December 2021; when rounded in thousands, $3,216 of dividends were declared in Q4 2021.

8 The total amount of dividends declared was $0.10000 per share for a total of $1,067,689 per month for October - December 2020; when rounded in thousands, $3,203 of dividends were declared in Q4 2020.

For the year ended December 31, 2021, the Corporation declared a $1.200 per Common Share dividend compared to $2.571 per Common Share of Distributable Cash Flow (see *"Terminology"*). The actual payout ratio was 46.8%.

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 Board of Directors. 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 $000s 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:

				2021				2020
($ Thousands of CDN dollars, except percentages and per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash (used in) provided by operating activities	7,743	12,543	3,047	8,542	25,023	(504)	6,289	11,588
Deduct (add):								
Net changes in non-cash working capital items[1]	(1,358)	1,978	(7,022)	692	16,111	(13,724)	(2,926)	3,011
Share-based compensation expense	417	486	439	506	410	693	189	507
Maintenance capital expenditures[2]	281	426	275	112	(11)	35	280	328
Principle elements of lease payments	1,808	1,765	1,742	1,852	1,627	1,442	1,487	1,666
Distributable cash flow	**6,595**	**7,888**	**7,613**	**5,380**	**6,886**	**11,050**	**7,259**	**6,076**
Dividends declared	3,216	3,216	3,211	3,203	3,203	3,203	3,196	3,181
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300
Payout ratio[3]	48.8%	40.8%	42.2%	59.5%	46.5%	29.0%	44.0%	52.4%
Weighted average shares outstanding during the period, basic	10,622	10,611	10,603	10,597	10,575	10,563	10,551	10,539
Weighted average shares outstanding during the period, diluted	10,701	10,700	10,673	10,663	10,658	10,667	10,627	10,591
Trailing-twelve months ("TTM")								
Distributable cash flow	27,476	27,767	30,929	30,575	31,271	31,429	29,147	30,060
Dividends	12,846	12,833	12,820	12,805	12,783	12,761	12,739	12,720
Payout ratio[3]	46.8%	46.2%	41.4%	41.9%	40.9%	40.6%	43.7%	42.3%

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

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

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

Outstanding Shares

As at December 31, 2021, the Corporation had 10,719,778 Common Shares outstanding. Basic and diluted weighted average number of Common Shares outstanding for 2021 were 10,608,539 and 10,686,187, respectively (10,557,147 and 10,629,237, respectively, for the comparative 2020 periods).

In accordance with the Corporation's Long Term Incentive ("LTI") plan and in conjunction with the performance of the Corporation in the 2020 fiscal year, on April 23, 2021 the Compensation, Nominating and Corporate Governance Committee approved LTI compensation of $1.8 million (2020 – $1.8 million) to be paid as Common Shares issued from treasury. As at December 31, 2021, the value of the Common Shares held by the LTI custodian was $2.7 million (December 31, 2020 – $3.1 million) which was comprised of 78,632 in unvested Common Shares (December 31, 2020 – 79,423) with a nil aggregate cost (December 31, 2020 – $nil).

As at March 15, 2022 there were 10,719,778 Common Shares issued and outstanding including 78,632 Common Shares issued but held as unvested treasury shares.

Related Party Transactions

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by Mr. Matthew Hills, a member of the Board of Directors. The amounts charged are recorded at their exchange amounts and are on arm's length terms. For the year ended December 31, 2021, the Corporation incurred fees totaling $138,000 (2020 – $138,000).

Critical Accounting Estimates

The Corporation's summary of significant accounting policies are contained in Note 2 to the 2021 Audited Financial Statements.

The 2021 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;
- property, plant and equipment;
- right of use assets and lease liabilities; and,
- lease terms.

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.

COVID-19 Risk

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.

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 COVID-19 outbreaks, the availability and effectiveness of the vaccine, the duration and geographic scope of related travel advisories and restrictions and the extent of the impact of the COVID-19 pandemic on overall demand for personal and business travel, all of which are highly uncertain and cannot be predicted with any degree of accuracy. As hotels continue to experience significantly reduced occupancy rates for an extended period, consolidated results of operations will be significantly impacted. The extent to which the outbreak affects our earnings will depend on the length of time the hospitality industry continues to experience reduced occupancy rates. Earnings will continue to be particularly affected if we continue to experience reductions in travel and reduced hospitality occupancy rates. 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.

As an ongoing risk, the duration and full financial effect of the COVID-19 pandemic continues to be uncertain at this time; the Corporation is managing the ongoing risk through the Corporation's business continuity plan and other mitigating measures. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Corporation's operations, financial results and condition in future periods are also subject to significant uncertainty.

Uncertainty about judgments, estimates and assumptions made by management during the preparation of the Corporation's consolidated financial statements related to potential impacts of the COVID-19 outbreak on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

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

AREAS OF SIGNIFICANT JUDGMENT

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.

Impairment of Goodwill & Non-financial Assets

Management reviews goodwill at least annually and other non-financial assets when there is any indication that the asset might be impaired. The assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset is impaired.

The Corporation applies judgment in:

- assessing the likelihood of renewal of significant contracts included in the intangible assets described in Note 8
- determining the appropriate discount rate and growth rate, and
- determining the appropriate comparable companies used in earnings multiple approach.

During the first quarter of 2020, based off impairment indicators that existed as a result of the COVID-19 pandemic, management had assessed the impairment of assets based off facts and circumstances which suggest that the carrying amount in certain CGUs may exceed its recoverable amount, refer to Note 26 for further detail.

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.

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.

AREAS OF ESTIMATION UNCERTAINTY

Incremental Borrowing Rate

In applying its accounting policy for leases management considers all appropriate facts and circumstances in the determination the lessee's incremental borrowing rate being used and these rates are reviewed and update on an annual basis.

Amortization of Property, Plant & Equipment, & Intangible Assets

In applying its accounting policy for the amortization of property, plant and equipment, and intangible assets, management considers all appropriate facts and circumstances in the determination of the appropriate rates and methodology to allocate costs over their estimated useful lives, 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.

Provisions

The Corporation's provision includes restructure costs and the restoration for premises of its leased plants. The Corporation determines restructure costs based off employment standards and legal consultation. For 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 10 for more details about estimation for this provision.

Impairment of Goodwill & Non-financial Assets

During instances where indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash generating unit to which the asset belongs. The recoverable value of CGUs require the use of estimates related to the future operating results and cash generating ability of the assets. The Corporation applies estimates in identifying the appropriate discount rate and growth rate used to estimate the recoverable value, identifying the CGUs to which intangible assets should be allocated to, and the CGU or group of CGUs at which goodwill is monitored for internal management purposes.

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

Terminology

EBITDA

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

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

	Three Months Ended December 31,		Years Ended December 31,	
($ Thousands of CDN dollars)	**2021**	**2020**	**2021**	**2020**[1]
Net earnings	1,499	2,135	8,692	3,782
Add:				
Income tax expense	1	1,646	3,788	2,617
Finance expense	800	836	3,449	3,961
Depreciation of property, plant and equipment	5,958	6,157	23,625	24,048
Amortization of intangible assets	670	953	3,237	3,836
EBITDA	**8,928**	**11,727**	**42,791**	**38,244**

1 Q1 2020 includes an adjustment of $5.5 million for an impairment related charge to the Canadian Division.

NON-GAAP MEASURE

Distributable Cash Flow

Distributable cash flow is a measure used by management to evaluate the Corporation's 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 should be noted that although we consider this measure to be distributable cash flow, financial and non-financial covenants in our credit facilities and dealer agreements may restrict cash from being available for dividends, re-investment in the Corporation, potential acquisitions, or other purposes. Investors should be cautioned that distributable cash flow may not actually be available for growth or distribution from the Corporation. Management refers to "Distributable cash flow" as to cash provided by (used in) operating activities with the addition of net changes in non-cash working capital items, less share-based compensation, 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 (excludes lease liabilities) 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, and debt to total capital are not calculations based on IFRS and are not considered an alternative to IFRS measures in measuring K-Bro's performance. Distributable cash flow, and payout ratio 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, 2021, the Corporation has not entered into any off balance sheet arrangements.

Changes in Accounting Policies

The Corporation has prepared its December 31, 2021 audited consolidated financial statements in accordance with IFRS. See Note 2 of the 2021 Audited Financial Statements for more information regarding the significant accounting principles used to prepare the 2020 Audited Financial Statements.

Recent Accounting Pronouncements

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

The IASB has issued the following new standard and amendments to existing standards that will become effective in future years.

- Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction, that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023.
- Amendments to IFRS 3, Business Combinations - Updating a Reference to the Conceptual Framework, updating a reference to the Conceptual Framework.
- Amendments to IAS 1, Presentation of Financial Statements - Disclosure of Accounting Policies, requiring entities to disclose material, instead of significant, accounting policy information.
- Amendments to IAS 1, Presentation of Financial Statements - Classification of Liabilities as Current or Noncurrent, clarifying requirements for the classification of liabilities as non-current.
- Amendments to IAS 8, Accounting Policies - Changes in Accounting Estimates and Errors, clarifying the definition of "accounting policies" and "accounting estimates".

- Amendments to IAS 16, Property, Plant and Equipment: Proceeds before intended use, prohibiting reducing the cost of property, plant, and equipment by proceeds while bringing an asset to capable operations.
- IAS 37, Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts, specifying costs an entity should include in determining the "cost of fulfilling" a potential onerous contract.

The Corporation has not adopted any standard, interpretation or amendment that has been issued but is not yet effective and no material impact is expected on the Corporation's consolidated financial statements. The Corporation will continue to assess the impacts, if any, the amendments to existing standards will have on our consolidated financial statements, but we currently do not expect any material impacts.

Financial Instruments

The Corporation's financial instruments at December 31, 2021 and 2020 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 though 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 long-term debt and foreign exchange rates on its equipment purchase commitments. The Corporation typically does not utilize derivative financial instruments for trading or speculative purposes.

The Corporation has a floating interest rate debt that gives rise to risks that its earnings and cash flows may be adversely impacted by fluctuations in interest rates. In order to manage these risks, the Corporation may enter into interest rate swaps, forward contracts on foreign currency, utilities and textiles or option contracts.

The Corporation has entered into several electrical and natural gas contracts at December 31, 2021. 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, 2021, there are no material changes in the Corporation's risks or risk management activities since December 31, 2020. The Corporation's results of operations, business prospects, financial condition, cash dividends to Shareholders and the trading price of the Common Shares are subject to a number of risks. These risk factors include: the adverse impact of the coronavirus (COVID-19) pandemic on the Corporation, which is significant, particularly to our

hospitality segment; dependence on long-term contracts and the associated renewal risk thereof; the effects of market volatility and uncertainty; potential future tax changes; the Corporation's competitive environment and increased competition; 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.

The Corporation's operating results may be subject to increased risk due to current geopolitical instability that could have an impact on key input prices, such as natural gas. This uncertainty has become more pronounced with the conflict in the Ukraine which began in late February 2022 and has resulted in significant volatility in natural gas supply rates. We expect to mitigate some of these cost increases with price increases to our customers through price escalation measures although there could be some lag.

For a discussion of these risks and other risks associated with an investment in the Common 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, 2021, 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, 2021, 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, 2021, the CEO and CFO have concluded that these controls were operating effectively.

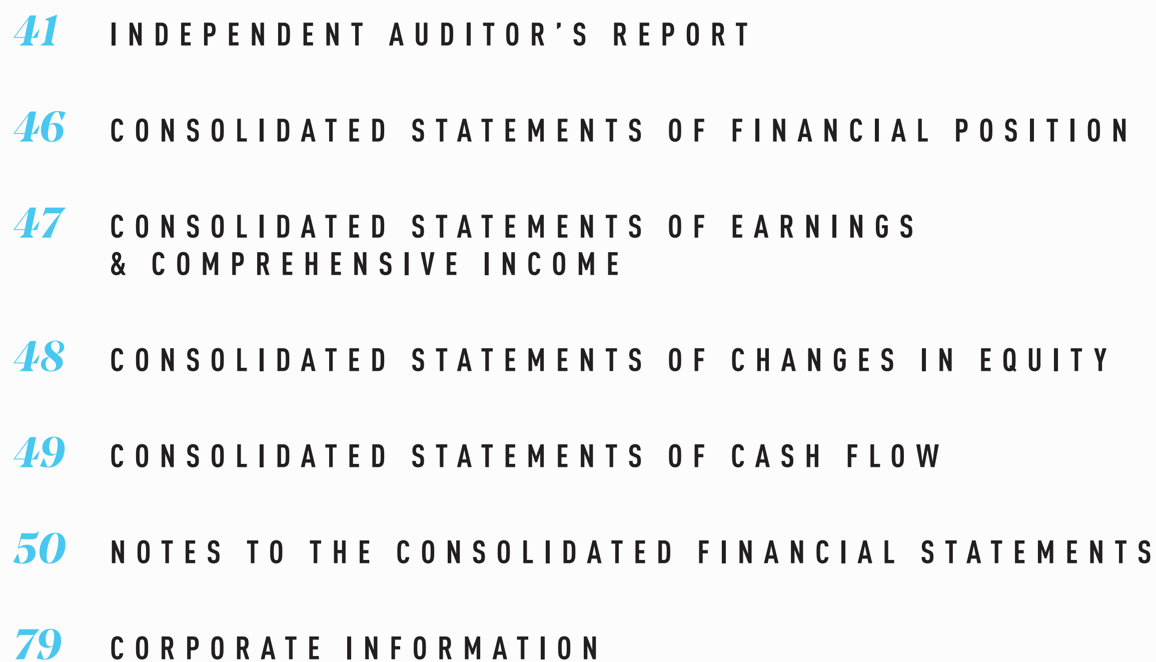
A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control 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 »).

CONSOLIDATED
FINANCIAL
STATEMENTS



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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 Corporation) as at December 31, 2021 and 2020, 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 Corporation's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- 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 significant accounting policies and other explanatory information.

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 Corporation 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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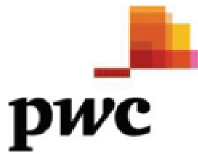
"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Key audit matter	How our audit addressed the key audit matter
Impairment assessments of goodwill, intangible assets and property, plant and equipment for the UK Division, Vancouver 2 and Victoria cash generating units (CGUs) that rely primarily on hospitality revenues *Refer to note 9 – Goodwill, note 26 – Impairment of assets, note 2 – Significant accounting policies and note 5 – Critical accounting estimates and judgments to the consolidated financial statements*. The Corporation had goodwill of $38.2 million, intangible assets of $7.0 million and property, plant and equipment of $213.5 million as at December 31, 2021, which included amounts related to certain CGUs that rely primarily on hospitality revenues. Management reviews goodwill at least annually and intangible assets and property, plant and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount firstly to the recorded goodwill, then to the other assets in the CGU on a pro rata basis, as determined by the carrying amount of each asset in the CGU. For the UK Division, Vancouver 2 and Victoria CGUs, the probability weighted discounted cash flow approach was used for the impairment tests as at December 31, 2021 to capture the increased risk and uncertainty arising from COVID-19. For the December 31, 2021 impairment test, management's probability weighted approach was evaluated based on an equally weighted probability of a continued one-year downturn in sales to the worst case of a two-year downturn in sales. Key assumptions in calculating the recoverable amount of the CGUs were long-term growth rates and discount rates.	Our approach to addressing the matter included the following procedures, among others: • Evaluated how management determined the recoverable amounts of the goodwill, intangible assets and property, plant and equipment related to the UK Division, Vancouver 2 and Victoria CGUs that rely primarily on hospitality revenues, which included the following: – Tested the appropriateness of the approach used and the mathematical accuracy of the probability weighted discounted cash flows. – Tested appropriateness and reasonableness of the probability weighted scenarios of a one to two-year downturn in sales at December 31, 2021. – Tested the reasonableness of the long-term growth rates applied by management in the probability weighted discounted cash flows by comparing them to the historical growth rates of the CGUs and to the budget approved by the Board of Directors. – Professionals with specialized skill and knowledge in the field of valuation assisted in testing the reasonableness of the discount rates applied by management based on available data of comparable companies. – Tested the underlying data used in the probability weighted discounted cash flows. • Tested the disclosures made in the consolidated financial statements, particularly with regard to the sensitivity of the key assumptions used.

Key audit matter	How our audit addressed the key audit matter
As a result of the testing as at December 31, 2021, no impairment was required for any of these CGUs. We considered this a key audit matter due to (i) the significance of the goodwill, intangible assets and property, plant and equipment balances and (ii) the significant judgments and estimates made by management in determining the recoverable amount of the UK Division, Vancouver 2 and Victoria CGUs that rely primarily on hospitality revenues, including the use of key assumptions. This has resulted in a high degree of subjectivity and audit effort in performing audit procedures to test the key assumptions. Professionals with skill and knowledge in the field of valuation assisted us in performing our procedures.	

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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation'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 Corporation'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 Corporation'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 Corporation 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 Corporation 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta
March 15, 2022

Consolidated Statements of Financial Position

($ Thousands of CDN dollars)	DECEMBER 31, 2021	DECEMBER 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	1,110	2,416
Accounts receivable	36,847	28,108
Income tax receivable	-	370
Prepaid expenses and deposits	4,475	4,231
Linen in service (note 6)	31,340	31,549
	73,772	**66,674**
Property, plant and equipment (note 7)	213,526	208,660
Intangible assets (note 8)	6,989	9,980
Goodwill (note 9)	38,232	38,497
	332,519	**323,811**
LIABILITIES		
Current liabilities		
Accounts payable and other liabilities	30,114	24,620
Provisions (note 10)	703	884
Contract liability (note 27)	810	1,259
Lease liabilities (note 13)	9,206	8,298
Income taxes payable	1,596	2,623
Dividends payable to shareholders	1,072	1,068
	43,501	**38,752**
Long-term debt (note 11)	37,973	40,657
Lease liabilities (note 13)	47,733	37,705
Provisions (note 10)	2,811	2,789
Contract liability (note 27)	-	406
Deferred income taxes (note 14)	14,100	13,998
	146,118	**134,307**
SHAREHOLDERS' EQUITY		
Share capital	206,660	204,869
Contributed surplus	2,338	2,281
Deficit	(23,233)	(19,079)
Accumulated other comprehensive income	636	1,433
	186,401	**189,504**
Contingencies and commitments (note 15)		
	332,519	**323,811**

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

Approved by the Board of Directors

H. Elise Rees — ELISE REES, DIRECTOR

Matthew Hills — MATTHEW HILLS, DIRECTOR

Consolidated Statements of Earnings & Comprehensive Income

($ Thousands of CDN dollars, except share and per share amounts)	Years Ended December 31, 2021	2020
REVENUE	**223,992**	**196,591**
Expenses		
Wages and benefits (notes 15 and 27)	84,840	67,620
Linen (note 6)	27,921	24,780
Delivery (notes 15 and 27)	24,744	20,719
Utilities	13,547	11,644
Corporate (note 27)	9,452	10,520
Materials and supplies	9,084	6,986
Repairs and maintenance	7,695	7,006
Occupancy costs	3,918	3,561
Gain on disposal of property, plant and equipment	-	(5)
Impairment of assets (note 26)	-	5,516
	181,201	**158,347**
EBITDA	**42,791**	**38,244**
Other expenses		
Depreciation of property, plant and equipment (note 7)	23,625	24,048
Amortization of intangible assets (note 8)	3,237	3,836
Finance expense (note 12)	3,449	3,961
	30,311	**31,845**
Earnings before income taxes	**12,480**	**6,399**
Current income tax expense	3,662	1,234
Deferred income tax expense	126	1,383
Income tax expense (note 14)	**3,788**	**2,617**
Net earnings	**8,692**	**3,782**
Other comprehensive income (loss)		
Items that may be subsequently reclassified to earnings:		
Foreign currency translation differences on foreign operations	(797)	655
Total comprehensive income	**7,895**	**4,437**
Net earnings per share (note 17)**:**		
Basic	0.82	0.36
Diluted	0.81	0.36
Weighted average number of shares outstanding:		
Basic	10,608,539	10,557,147
Diluted	10,686,187	10,629,237

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	Total Equity
As at December 31, 2020	**204,869**	**2,281**	**(19,079)**	**1,433**	**189,504**
Total comprehensive income (loss)	-	-	8,692	(797)	7,895
Dividends declared (note 19)	-	-	(12,846)	-	(12,846)
Employee share based compensation expense	-	1,848	-	-	1,848
Shares vested during the year	1,791	(1,791)	-	-	-
As at December 31, 2021	**206,660**	**2,338**	**(23,233)**	**636**	**186,401**

($ Thousands of CDN dollars)	Total Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total Equity
As at December 31, 2019	**203,110**	**2,241**	**(10,078)**	**778**	**196,051**
Total comprehensive income	-	-	3,782	655	4,437
Dividends declared (note 19)	-	-	(12,783)	-	(12,783)
Employee share based compensation expense	-	1,799	-	-	1,799
Shares vested during the year	1,759	(1,759)	-	-	-
As at December 31, 2020	**204,869**	**2,281**	**(19,079)**	**1,433**	**189,504**

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Cash Flow

($ Thousands of CDN dollars)	Years Ended December 31, 2021	2020
OPERATING ACTIVITIES		
Net earnings	8,692	3,782
Depreciation of property, plant and equipment (note 7)	23,625	24,048
Amortization of intangible assets (note 8)	3,237	3,836
Gain on forgiveness of lease liabilities (note 13(d))	-	(464)
Accretion expense (note 10)	57	29
Employee share based compensation expense	1,848	1,799
Gain on disposal of property, plant and equipment	-	(5)
Impairment of assets (note 26)	-	5,516
Deferred income taxes	126	1,383
	37,875	**39,924**
Change in non-cash working capital items (note 20)	(5,710)	2,472
Cash provided by operating activities	**31,875**	**42,396**
FINANCING ACTIVITIES		
Net repayment of revolving debt (note 11)	(2,684)	(21,837)
Principle elements of lease payments (note 13)	(7,168)	(6,222)
Dividends paid to shareholders	(12,842)	(12,775)
Cash used in financing activities	**(22,694)**	**(40,834)**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(10,132)	(4,420)
Proceeds from disposal of property, plant and equipment	-	7
Purchase of intangible assets (note 8)	(360)	-
Cash used in investing activities	**(10,492)**	**(4,413)**
Change in cash and cash equivalents during the year	(1,311)	(2,851)
Effect of exchange rate changes on cash and cash equivalents	5	(34)
Cash and cash equivalents, beginning of year	2,416	5,301
Cash and cash equivalents, end of year	**1,110**	**2,416**
Supplementary cash flow information		
Interest paid	3,118	3,849
Income taxes paid	4,600	518

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, 2021 and 2020)

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 15, 2022.

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 intercompany balances and transactions have been eliminated upon consolidation.

c) Cash & Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits with banks, and 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.

The Corporation presents its contract balances, on a contract-by-contract basis, in a net contract asset or liability position, separately from its trade receivables. Contract assets and trade receivables are both rights to receive consideration in exchange for goods or services that the Company has transferred to a customer, however the classification depends on whether such right is only conditional on the passage of time (trade receivables) or if it is also conditional on something else (contract assets), such as the satisfaction of further performance obligations under the contract. A contract liability is the cumulative amount received and contractually receivable by the Corporation that exceeds the right to consideration resulting from the Corporation's performance under a given contract.

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 Consolidated Statements of Earnings and Comprehensive Income 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.

Property, plant and equipment include right of use assets as disclosed under the Corporation's leasing policy in note 2(r). Right of use assets arise from a lease that is initially measured on a present value basis, and are classified within the relevant property, plant and equipment categories based on the type of asset.

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

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

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

g) Intangible Assets

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

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

Asset	Rate
Customer contracts	1 – 20 years
Computer software	5 years
Brand	Indefinite

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

h) Impairment of Non-Financial Assets

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating unit or "CGU"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount firstly to the recorded goodwill, then to the other assets in the CGU on a pro rata basis, as determined by the carrying amount of each asset in the CGU. 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 the Consolidated Statements of Earnings and Comprehensive Income, 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 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) Provisions

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 (loss), or though 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 aabout the impairment of financial assets, their credit quality and the Corporation's exposure to credit risk can be found in Note 21(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.

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, e.g., 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 & 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.

s) Government Grants

Government grants, including non-monetary grants at fair value, are only recognised when there is reasonable assurance that:

(a) all conditions attaching to the Government grant will be complied with;

(b) the value of the grant can be determined with reasonable certainty; and

(c) the grant will be received.

Government grants are recognised in the profit or loss over the periods in which the Corporation recognises related expenses. Where government grants relate to costs which have been capitalised as assets these are recognised as a reduction to the related asset in the consolidated statements of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Corporation with no future related costs are recognised in profit or loss in the period in which they relate to.

3. CHANGES & UPDATES IN ACCOUNTING POLICIES

The Corporation adopted the following accounting standards and amendments that were effective for our interim and annual consolidated financial statements commencing January 1, 2021. These changes did not have a material impact on our financial results and are not expected to have a material impact in the future.

Interest Rate Benchmark Reform – Phase 2

In August 2020, the IASB issued Interest Rate Benchmark Reform – Phase 2, which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases. The amendments apply for annual periods beginning on or after January 1, 2021.

The Phase 2 amendments address issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate.

There is significant uncertainty over the timing of when the replacements for IBORs will be effective and what those replacements will be. We will actively monitor the IBOR reform and consider circumstances as we renew or enter into new financial instruments.

4. NEW STANDARDS & INTERPRETATIONS NOT YET ADOPTED

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

The IASB has issued the following new standard and amendments to existing standards that will become effective in future years.

- Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction, that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023.
- Amendments to IFRS 3, Business Combinations - Updating a Reference to the Conceptual Framework, updating a reference to the Conceptual Framework.
- Amendments to IAS 1, Presentation of Financial Statements - Disclosure of Accounting Policies, requiring entities to disclose material, instead of significant, accounting policy information.
- Amendments to IAS 1, Presentation of Financial Statements - Classification of Liabilities as Current or Noncurrent, clarifying requirements for the classification of liabilities as non-current.
- Amendments to IAS 8, Accounting Policies - Changes in Accounting Estimates and Errors, clarifying the definition of "accounting policies" and "accounting estimates".
- Amendments to IAS 16, Property, Plant and Equipment: Proceeds before intended use, prohibiting reducing the cost of property, plant, and equipment by proceeds while bringing an asset to capable operations.
- IAS 37, Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts, specifying costs an entity should include in determining the "cost of fulfilling" a potential onerous contract.

The Corporation has not adopted any standard, interpretation or amendment that has been issued but is not yet effective and no material impact is expected on the Corporation's consolidated financial statements. The Corporation will continue to assess the impacts, if any, the amendments to existing standards will have on our consolidated financial statements, but we currently do not expect any material impacts.

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.

COVID-19 Risk

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.

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 COVID-19 outbreaks, the availability and effectiveness of the vaccine, the duration and geographic scope of related travel advisories and restrictions and the extent of the impact of the COVID-19 pandemic on overall demand for personal and business travel, all of which are highly uncertain and cannot be predicted with any degree of accuracy. As hotels continue to experience significantly reduced occupancy rates for an extended period, consolidated results of operations will be significantly impacted. The extent to which the outbreaks affects our earnings will depend on the length of time the hospitality industry continues to experience reduced occupancy rates. Earnings will continue to be particularly affected if we continue to experience reductions in travel and reduced hospitality occupancy rates. 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.

As an ongoing risk, the duration and full financial effect of the COVID-19 pandemic continues to be uncertain at this time, the Corporation is managing the ongoing risk through the Corporation's business continuity plan and other mitigating measures. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Corporation's operations, financial results and condition in future periods are also subject to significant uncertainty.

Uncertainty about judgments, estimates and assumptions made by management during the preparation of the Corporation's consolidated financial statements related to potential impacts of the COVID-19 outbreak on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

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

Areas of Significant Judgment

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.

Impairment of Goodwill & Non-Financial Assets

Management reviews goodwill at least annually and other non-financial assets when there is any indication that the asset might be impaired. The assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset is impaired.

The Corporation applies judgment in:

- assessing the likelihood of renewal of significant contracts included in the intangible assets described in Note 8,
- identifying the CGUs to which intangible assets should be allocated to, and the CGU or group of CGUs at which goodwill is monitored for internal management purposes, and
- determining the appropriate comparable companies used in earnings multiple approach.

During the first quarter of 2020, based on impairment indicators that existed as a result of the COVID-19 pandemic, management had assessed the impairment of assets based off facts and circumstances which suggest that the carrying amount in certain CGUs may exceed its recoverable amount, refer to Note 26 for further detail.

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.

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.

Areas of Estimation Uncertainty

Incremental Borrowing Rate

In applying its accounting policy for leases management considers all appropriate facts and circumstances in the determination the lessee's incremental borrowing rate being used and these rates are reviewed and update on an annual basis.

Amortization of Property, Plant & Equipment, & Intangible Assets

In applying its accounting policy for the amortization of property, plant and equipment, and intangible assets, management considers all appropriate facts and circumstances in the determination of the appropriate rates and methodology to allocate costs over their estimated useful lives, 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.

Provisions

The Corporation's provision includes restructure costs and the restoration for premises of its leased plants. The Corporation determines restructure costs based off employment standards and legal consultation. For 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 10 for more details about estimation for this provision.

Impairment of Goodwill & Non-Financial Assets

Management reviews goodwill at least annually and other non-financial assets when there is any indication that the asset might be impaired. As part of this review the Corporation use estimates to calculate the appropriate discount rate and growth rate which are used to estimate the recoverable value.

During instances where indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash generating unit to which the asset belongs. The recoverable value of CGUs require the use of estimates related to the future operating results and cash generating ability of the assets.

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. LINEN IN SERVICE

($ Thousands of CDN dollars)	2021	2020
Balance, beginning of year	**31,549**	**26,039**
Additions	27,878	30,177
Amortization charge	(27,921)	(24,780)
Effect of movement in exchange rates	(166)	113
Balance, end of year	**31,340**	**31,549**

7. PROPERTY, PLANT & EQUIPMENT

($ Thousands of CDN dollars, except share and per share amounts)	Land	Buildings	Laundry Equipment[1]	Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements	Spare Parts	Total
	Year Ended, December 31, 2020								
Opening net book amount	4,043	52,524	119,704	309	6,578	708	40,610	1,856	226,332
Additions[2][3][5]	-	1	2,329	64	5,725	145	43	-	8,307
Disposals	-	-	(2)	-	-	-	-	-	(2)
Transfers	-	-	153	-	-	-	-	(153)	-
Depreciation charge	-	(5,229)	(11,289)	(144)	(2,933)	(459)	(3,994)	-	(24,048)
Impairment of assets[4]	-	(207)	(2,113)	-	(5)	(14)	-	-	(2,339)
Effect of movement in exchange rates	19	125	191	1	70	-	4	-	410
Closing net book amount	**4,062**	**47,214**	**108,973**	**230**	**9,435**	**380**	**36,663**	**1,703**	**208,660**
	At December 31, 2020								
Cost	4,062	61,810	189,464	1,110	16,347	3,228	60,145	1,703	337,869
Accumulated impairment losses	-	(207)	(2,113)	-	(5)	(14)	-	-	(2,339)
Accumulated depreciation	-	(14,389)	(78,378)	(880)	(6,907)	(2,834)	(23,482)	-	(126,870)
Net book amount	**4,062**	**47,214**	**108,973**	**230**	**9,435**	**380**	**36,663**	**1,703**	**208,660**
	Year Ended, December 31, 2021								
Opening net book amount	4,062	47,214	108,973	230	9,435	380	36,663	1,703	208,660
Additions[2][3][5]	-	16,849	10,206	115	1,535	176	46	43	28,970
Depreciation charge	-	(5,702)	(10,901)	(122)	(2,982)	(258)	(3,660)	-	(23,625)
Effect of movement in exchange rates	(23)	(151)	(216)	(1)	(84)	-	(4)	-	(479)
Closing net book amount	**4,039**	**58,210**	**108,062**	**222**	**7,904**	**298**	**33,045**	**1,746**	**213,526**
	At December 31, 2021								
Cost	4,039	78,464	199,337	1,220	17,738	3,404	60,188	1,746	366,136
Accumulated impairment losses	-	(207)	(2,113)	-	(5)	(14)	-	-	(2,339)
Accumulated depreciation	-	(20,047)	(89,162)	(998)	(9,829)	(3,092)	(27,143)	-	(150,271)
Net book amount	**4,039**	**58,210**	**108,062**	**222**	**7,904**	**298**	**33,045**	**1,746**	**213,526**

1 Included in laundry equipment are assets under development in the amount of $4,616 (2020 - $24). These assets are not available for service and accordingly are not presently being depreciated.

2 Total property, plant and equipment additions are inclusive of amounts incurred in the period that are yet be paid, with amounts remaining in accounts payable and accrued liabilities of $873 (2020 - $312).

3 Additions include amounts from the Canadian Division of $26,287 (2020 - $2,544) and from the UK Division of $2,683 (2020 - $5,763).

4 During 2020 based off impairment indicators that existed in the year, the Corporation determined that the carrying value exceeded the recoverable amount for one of their cash generating units, and an impairment loss was recorded for property, plant and equipment, for further detail refer to note 26.

5 Includes ROUA additions from the Canadian Division of $16,135 (2020 - $1,065), comprised of buildings of $15,205 (2020 - $0) and vehicles of $930 (2020 - $1,065). From the UK Division, ROUA additions were $2,152 (2020 - $4,684), comprised of buildings of $1,594 (2020 - $0) and vehicles of $558 (2020 - $4,684). This has resulted in corresponding increases to the lease liabilities in the amount of $16,135 (2020 - $1,065) for the Canadian Division and $2,152 (2020 - $4,684) for the UK Division.

8. INTANGIBLE ASSETS

($ Thousands of CDN dollars, except share and per share amounts)	Healthcare Relationships	Hospitality Relationships	Computer Software	Brand	Total
			Year Ended, December 31, 2020		
Opening net book amount	530	8,875	-	4,294	13,699
Additions	-	-	-	-	-
Amortization charge	(453)	(3,383)	-	-	(3,836)
Effect of movement in exchange rates	-	66	-	51	117
Closing net book amount	**77**	**5,558**	**-**	**4,345**	**9,980**
			At December 31, 2020		
Cost	19,200	22,911	927	4,345	47,383
Accumulated amortization	(19,123)	(17,353)	(927)	-	(37,403)
Net book amount	**77**	**5,558**	**-**	**4,345**	**9,980**
			Year Ended, December 31, 2021		
Opening net book amount	77	5,558	-	4,345	9,980
Additions	-	-	360	-	360
Amortization charge	(39)	(3,181)	(17)	-	(3,237)
Effect of movement in exchange rates	-	(52)	-	(62)	(114)
Closing net book amount	**38**	**2,325**	**343**	**4,283**	**6,989**
			At December 31, 2021		
Cost	19,200	22,859	1,287	4,283	47,629
Accumulated amortization	(19,162)	(20,534)	(944)	-	(40,640)
Net book amount	**38**	**2,325**	**343**	**4,283**	**6,989**

9. GOODWILL

Goodwill represents the excess of the acquisition-date fair value of consideration transferred over the fair value of the identifiable net assets acquired in a business combination. Goodwill is not amortized. Refer to Note 26 for the Corporation's impairment testing disclosure.

Goodwill has been allocated to the following CGUs:

($ Thousands of CDN dollars except share and per share amounts)	December 31, 2021	December 31, 2020
Calgary	8,082	8,082
Edmonton	4,346	4,346
Vancouver 2	3,413	3,413
Vancouver 1	2,630	2,630
Victoria	1,508	1,508
Montréal	-	-
Québec	-	-
Canadian division	**19,979**	**19,979**
UK division	18,100	18,100
Changes due to movement in exchange rates	153	418
UK division	**18,253**	**18,518**
Goodwill	**38,232**	**38,497**

WE ARE DEPENDABLE.

10. PROVISIONS

The Corporation's provision includes a current provision of $703 (2020 - $884) to recognize restructuring costs, and a long-term provision of $2,811 (2020 - $2,789) that is comprised of lease provisions and obligations to restore leased premises of its leased plants.

Management estimates the current provision based on consultation from legal and current employment standards. Estimates of the long-term provision, is based off 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.

A long-term 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, 2021 to be $3,032 (2020 - $2,928). Management has estimated the present value of this obligation at December 31, 2021 to be $2,811 (2020 - $2,789) using an inflation rate of 1.80% (2020 – 1.40%) and pre-tax weighted average risk-free interest rate of 0.91% to 1.66% (2020 - 0.20% to 1.10%) 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 2026 to 2039.

As at December 31, 2021, if actual costs were to differ by 10% from management's estimate the obligation would be an estimated $351 (2020 - $367) 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:

($ Thousands of CDN dollars)	Asset Retirement Obligations	Restructuring Costs	Other	Total
	Year Ended, December 31, 2021			
Balance, beginning of year	2,789	884	-	3,673
Charges against provisions	57	-	-	57
Adjustments/settlement	(26)	(181)	-	(207)
Changes due to movement in exchange rate	(9)	-	-	(9)
Balance, end of year	**2,811**	**703**	-	**3,514**
Current portion	-	703	-	703
Non-current portion	2,811	-	-	2,811
	Year Ended, December 31, 2020			
Balance, beginning of year	2,740	-	98	2,838
New provisions	-	1,852	-	1,852
Charges against provisions	29	-	-	29
Adjustments/settlement	13	(968)	(98)	(1,053)
Changes due to movement in exchange rate	7	-	-	7
Balance, end of year	**2,789**	**884**	-	**3,673**
Current portion	-	884	-	884
Non-current portion	2,789	-	-	2,789

11. LONG-TERM DEBT

($ Thousands of CDN dollars)	Prime Rate Loan[1]
At January 1, 2020	62,494
Net repayment of debt	(21,837)
Closing balance at December 31, 2020	**40,657**
At January 1, 2021	40,657
Net repayment of debt	(2,684)
Closing balance at December 31, 2021	**37,973**

1 The revolving credit facility is collateralized by a general security agreement, bears interest at prime or the applicable banker's acceptance rate, plus an interest margin dependent on certain financial ratios, with a monthly repayment of interest only, maturing on July 31, 2024. The additional interest margin can range between 0.0% to 1.75% dependent upon the calculated Funded Debt / Credit Facility EBITDA financial ratio, with a range between 0 to 3.25x. The required calculated Funded Debt / Credit Facility EBITDA financial ratio is subject to change based off certain terms and conditions. As at December 31, 2021 the combined interest rate was 2.70% (December 31, 2020 – 2.70%).

On June 30, 2021, the Corporation completed amendments to its existing revolving credit facility, which extended the agreement to July 31, 2024 from July 31, 2022.

During 2020, in consideration of the ongoing COVID-19 pandemic, management requested temporary changes to the terms and conditions of the credit facility. These temporary covenant changes as well as the restriction on dividends expired on June 30, 2021 and the Corporation must now observe a maximum Funded Debt to EBITDA covenant of 3.25x and a maximum Fixed Charge covenant of 1.2x.

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, 2021 and December 31, 2020.

The Corporation has a revolving credit facility of up to $100,000 plus a $25,000 accordion of which $40,362 is utilized (including letters of credit totaling $2,389) as at December 31, 2021. 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.

12. FINANCE EXPENSE

($ Thousands of CDN dollars)	2021	2020
Interest on long-term debt	818	1,690
Lease interest expense	2,144	1,944
Accretion expense	57	29
Other charges, net	430	298
	3,449	**3,961**

13. LEASES

a) Amounts Recognized in the Balance Sheet

The balance sheet reflects the following amounts relating to leases:

($ Thousands of CDN dollars)	December 31, 2021	December 31, 2020
Right-of-use assets		
Buildings	42,632	30,549
Equipment	7,731	9,226
	50,363	**39,775**
Lease liabilities		
Buildings	48,865	36,501
Equipment	8,074	9,502
Total lease liabilities	**56,939**	**46,003**
Less, current portion of lease liabilities	(9,206)	(8,298)
Long term lease liabilities	**47,733**	**37,705**
Additions to the right-of-use assets during the financial year		
Buildings	16,799	-
Equipment	1,488	5,749
	18,287	**5,749**

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, 2021	December 31, 2020
Depreciation charge of right-of-use assets		
Buildings	4,620	4,130
Equipment	2,903	2,854
	7,523	**6,984**
Interest expense (included in finance expense)	2,144	1,944
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	26	33
The total cash outflow for leases	**9,338**	**8,199**

c) Reconciliation of Expected Lease Liabilities

($ Thousands of CDN dollars)	December 31, 2021	December 31, 2020
Lease liabilities		
Balance at January 1,	46,003	46,828
Right-of-use asset additions	18,287	5,749
Interest expense	2,144	1,944
Cash payment of lease payments	(9,312)	(8,630)
Effect of movement in exchange rates	(183)	112
Total lease liabilities	**56,939**	**46,003**

d) Amendment to IFRS 16 - COVID-19 Related Rent Concessions

During 2020 the Corporation elected to apply the practical expedient introduced in May 2020 and treated COVID-19 rent related concessions received as if they were not lease modifications. As such, changes in lease payments that do not arise from a lease modification are accounted for as variable lease payments, in which the Corporation recognizes the variable lease payments in profit or loss in the respective period in which the event or condition that triggers those payments occurs.

During the year ended December 31, 2020 a rent concession for the unconditional forgiveness of debt of $464 was recognized as a negative variable lease payment included in the Corporation's consolidated statements of earnings and comprehensive income as an offset to occupancy costs and treated as a forgiveness of lease liabilities, with a non-cash impact to the principal elements of lease payments included in financing activities within the Corporation's consolidated statements of cash flow.

In March 2021, the IASB amended IFRS 16 - Leases, to extend the practical expedient introduced in May 2020 in response to the COVID-19 pandemic, in order to permit lessees to apply it to rent concessions for which reductions in lease payments affect payments due on or before June 30, 2022 (extended from June 30, 2021). This amendment did not have an impact on the Corporation's financial statements, or to the original treatment during 2020.

14. INCOME TAXES

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

($ Thousands of CDN dollars)	2021	2020
Current tax:		
Current tax expense on profits for the year	3,662	1,234
Total current tax expense	**3,662**	**1,234**
Deferred tax:		
Origination and reversal of temporary differences	150	1,133
Impact of substantively enacted rates and other	(24)	250
Total deferred tax expense	**126**	**1,383**

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:

($ Thousands of CDN dollars)	2021	2020
Earnings before income taxes	**12,480**	**6,399**
Non-taxable items	(1,878)	(1,112)
Income subject to tax	**10,602**	**5,287**
Income tax at statutory rate of 25.48% (2020 - 25.86%)	2,702	1,367
Difference between Canadian and foreign tax rates	524	782
Impact of substantively enacted rates and other	562	468
Income tax expense	**3,788**	**2,617**

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

($ Thousands of CDN dollars)	2021	2020
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	(17,236)	(12,850)
	(17,236)	**(12,850)**
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	26,010	21,212
Deferred tax liability to be recovered within 12 months	5,326	5,636
	31,336	**26,848**
Deferred tax liabilities, net	**14,100**	**13,998**

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:

($ Thousands of CDN dollars)	Lease Liabilities	Provisions	Offering Costs & Other	Total
Deferred tax assets:				
At January 1, 2020	(10,995)	(563)	(527)	(12,085)
Charged (credited) to the statement of earnings	201	15	(937)	(721)
Related to movements in exchange rates	(31)	-	(13)	(44)
At December 31, 2020	**(10,825)**	**(548)**	**(1,477)**	**(12,850)**
Charged (credited) to the statement of earnings	3,662	(11)	(779)	(4,452)
Related to movements in exchange rates	42	-	24	66
At December 31, 2021	**(14,445)**	**(559)**	**(2,232)**	**(17,236)**

($ Thousands of CDN dollars)	Linen in Service	Property, Plant & Equipment	Intangible Assets & Goodwill	LTIP & Other	Total
Deferred tax liabilities:					
At January 1, 2020	4,132	17,768	2,346	431	24,677
Charged (credited) to the statement of earnings	1,504	1,682	(985)	(97)	2,104
Related to movements in exchange rates	-	46	21	-	67
At December 31, 2020	**5,636**	**19,496**	**1,382**	**334**	**26,848**
Charged (credited) to the statement of earnings	(310)	4,804	86	(2)	4,578
Related to movements in exchange rates	-	(66)	(24)	-	(90)
At December 31, 2021	**5,326**	**24,234**	**1,444**	**332**	**31,336**

15. CONTINGENCIES & COMMITMENTS

a) Contingencies

The Corporation has standby letters of credit issued as part of normal business operations in the amount of $2,389 (December 31, 2020 – $650) which will remain outstanding for an indefinite period of time.

Grievances for unspecified damages were lodged against the Corporation in relation to labor 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.

With the impact of COVID-19, the operations of certain plants have significantly been impacted, and as a result various employees were furloughed throughout 2020. During 2020 the Corporation has recognized a provision of $1,852 related to restructuring costs through the statement of earnings, with $703 (December 31, 2020 – $884) remaining as a current liability on the Corporation's consolidated statement of financial position, refer to Note 10.

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)*

2022	7,716
2023	4,292
2024	2,740
2025	2,358
2026	1,495
Subsequent	-
	18,601

Linen Purchase Commitments

At December 31, 2021, the Corporation was committed to linen expenditure obligations in the amount of $12,075 (December 31, 2020 – $4,527) to be incurred within the next year.

Property, Plant & Equipment Commitments

At December 31, 2021, the Corporation was committed to capital expenditure obligations in the amount of $445 (December 31, 2020 – $42) to be incurred within the next year.

Trust Funds on Deposit

The Corporation maintains funds in trust for a customer to facilitate both parties in achieving their shared objectives. These funds are not available for the Corporation's general operating activities and, as such, have not been recorded in the accompanying Consolidated Statements of Financial Position. As at December 31, 2021, the Corporation held trust funds on deposit in the amount of $814 (2020 – $630).

16. 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

	2021	2020
Balance, beginning of year	10,676,889	10,604,382
Common shares issued under LTI	42,889	72,507
Balance, end of year	**10,719,778**	**10,676,889**
Unvested common shares held in trust for LTI	**78,632**	**79,423**

17. 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.

($ Thousands of CDN dollars, except share and per share amounts)	2021	2020
Net earnings	8,692	3,782
Weighted average number of shares outstanding (thousands)	10,609	10,557
Net earnings per share, basic	**0.82**	**0.36**

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.

($ Thousands of CDN dollars, except share and per share amounts)	2021	2020
Basic weighted average shares for the year	10,608,539	10,557,147
Dilutive effect of LTI shares	77,648	72,090
Diluted weighted average shares for the year	**10,686,187**	**10,629,237**
Net earnings	8,692	3,782
Weighted average number of shares outstanding (thousands)	10,686	10,629
Net earnings per share, diluted	**0.81**	**0.36**

18. 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.

	2021 Unvested	2021 Vested	2020 Unvested	2020 Vested
Balance, beginning of year	79,423	551,980	64,924	493,972
Issued during year	29,331	13,558	49,301	23,206
Vested during year	(30,122)	30,122	(34,802)	34,802
Balance, end of year	**78,632**	**595,660**	**79,423**	**551,980**

The cost of the 78,632 (2020 – 79,423) unvested Common shares held by the LTIP Account at December 31, 2021 was $0 (2020 - $0).

19. DIVIDENDS TO SHAREHOLDERS

During the year ended December 31, 2021, the Corporation declared total dividends to shareholders of $12,846 or $1.200 per share (2020 - $12,783 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.

20. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

($ Thousands of CDN dollars)	Year Ended, December 31, 2021	2020
Accounts receivable	(8,819)	6,847
Linen in service	(788)	(3,731)
Prepaid expenses and deposits	(284)	134
Accounts payable and accrued liabilities[1]	4,841	(1,527)
Income taxes payable / receivable	(660)	749
	5,710	**2,472**

1 Accounts payable and other liabilities, include the net change of accounts payable, accrued liabilities, net change in the current provision (note 10) related to restructure costs for 2021 - ($181) and in 2020 - $884 , but exclude the net change in non-cash amounts related to the acquisition of property, plant and equipment that have been committed to and paid for during 2021 $561 and 2020 ($1,725).

21. FINANCIAL INSTRUMENTS

a) Fair Value

The Corporation's financial instruments at December 31, 2021 and 2020 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, 2021, 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 $2, respectively, on net earnings.

Based on financial instrument balances as at December 31, 2021, 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 $3, 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 $380 (2020 - $407) 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, there was no identified impairment.

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, 2021 or January 1, 2021 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 macroeconomic 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 provides 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, 2021 and 2020 was determined as follows for trade receivables:

($ Thousands of CDN dollars)

December 31, 2021	Gross	Allowance	Net
Current	24,132	-	24,132
1 to 60 days	10,419	-	10,419
61 to 90 days	1,322	-	1,322
Greater than 90 days	1,117	143	974
	36,990	**143**	**36,847**

December 31, 2020	Gross	Allowance	Net
Current	22,436	-	22,436
1 to 60 days	4,495	-	4,495
61 to 90 days	1,144	-	1,144
Greater than 90 days	300	267	33
	28,375	**267**	**28,108**

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:

($ Thousands of CDN dollars)	Year Ended, December 31, 2021	2020
Opening loss allowance at January 1,	267	94
Adjustments made during the year	(87)	640
Write-offs	(35)	(468)
Effect of movements in exchange rates	(2)	1
Balance, end of year	**143**	**267**

e) Liquidity Risk

The Corporation's accounts payable, dividend payable and other liabilities are due within one year.

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

	Payments Due by Period				
($ Thousands of CDN dollars)	Total	2022	2023 to 2024	2025 to 2026	Subsequent
Long-term debt	37,973	-	37,973	-	-
Lease liabilities	69,804	9,242	16,361	13,844	30,357
Utility commitments	18,601	7,716	7,032	3,853	-
Linen purchase obligations	12,075	12,075	-	-	-
Property, plant and equipment commitments	445	445	-	-	-

The Corporation has a credit facility with a maturity date of July 31, 2024 (Note 11). 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.

The Corporation's capital structure includes working capital, a committed revolving credit facility and share capital. The Corporation continuously monitors actual and forecast cash flows and monitors the availability on our committed credit facility to ensure sufficient liquidity is available.

To reduce liquidity risk, management 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.

22. 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 11) 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.

	Years Ended, December 31,	
($ Thousands of CDN dollars)	**2021**	**2020**
Long-term debt, including current portion	37,973	40,657
Issued and outstanding letters of credit	2,389	650
Shareholders' equity	186,401	189,504
	226,763	**230,811**
Less: Cash and cash equivalents	(1,110)	(2,416)
	225,653	**228,395**

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.

As part of its operational strategy, to mitigate the impact of COVID-19 the Corporation reduced its planned capital spending through the deferral of any capital projects that were not critical to the Corporation's operations.

23. 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 2021 and 2020, remuneration to directors and key management personnel was as follows:

	Years Ended, December 31,	
($ Thousands of CDN dollars)	**2021**	**2020**
Salaries and retainer fees	1,872	1,868
Short-term bonus incentives	993	993
Post-employment benefits	64	64
Share-based payments	1,521	1,469
	4,450	**4,394**

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, 2021, the Corporation incurred such fees totaling $138 (2020– $138).

24. EXPENSES BY NATURE

($ Thousands of CDN dollars)	Years Ended, December 31, 2021	2020
Wages and benefits	100,617	81,868
Linen	27,921	24,780
Utilities	13,547	11,644
Delivery	14,564	12,480
Materials and supplies	10,782	8,126
Occupancy costs	4,052	3,704
Repairs and maintenance	7,695	7,006
Other expenses	2,023	8,739
	181,201	158,347

During the year ended December 31, 2021, wages and benefits reflected in the table above includes an offset of government grants recognized in the year of $3,746 (2020 - $14,255).

25. 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 and Calgary, the Corporation is the significant supplier of laundry and linen services to the entity which manages all major healthcare facilities in the region and is contractually committed to July 31, 2032. 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 year ended December 31, 2021, from these three major customers the Corporation has recorded revenue of $116,865 (2020 – $108,559), representing 52.2% (2020 – 55.2%) of total revenue.

($ Thousands of CDN dollars)	2021		2020	
Healthcare	159,938	71.4%	144,715	73.6%
Hospitality	23,135	10.3%	21,967	11.2%
Canadian division	**183,073**	**81.7%**	**166,682**	**84.8%**
Healthcare	6,613	3.0%	6,488	3.3%
Hospitality	34,306	15.3%	23,421	11.9%
UK division	**40,919**	**18.3%**	**29,909**	**15.2%**
Total segment revenue	**223,992**	**100.0%**	**196,591**	**100.0%**

Segment Net Earnings & 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.

($ Thousands of CDN dollars)	Canadian Division	UK Division	Total
2021			
Net earnings (loss)	13,604	(4,912)	**8,692**
EBITDA	39,678	3,113	**42,791**

	Canadian Division	UK Division	Total
2020			
Net earnings	10,892	(7,110)	**3,782**
EBITDA	38,365	(121)	**38,244**

The Canadian division net earnings includes non-cash employee share based compensation expense of $1,848 (2020 – $1,799).

Segment Assets

Segment aassets 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.

($ Thousands of CDN dollars)

At December 31, 2021	Canadian Division	UK Division	Total
Total assets	254,225	78,294	**332,519**
Other:			
Cash and cash equivalents	-	(1,110)	**(1,110)**
Total segment assets	**254,225**	**77,184**	**331,409**

At December 31, 2020	Canadian Division	UK Division	Total
Total assets	243,414	80,397	**323,811**
Other:			
Cash and cash equivalents	(679)	(1,737)	**(2,416)**
Total segment assets	**242,735**	**78,660**	**321,395**

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.

($ Thousands of CDN dollars)

At December 31, 2021	**Canadian Division**	**UK Division**	**Total**
Total liabilities	123,109	23,009	**146,118**
Other:			
Long-term debt (note 11)	(37,973)	-	(37,973)
Total segment liabilities	**85,136**	**23,009**	**108,145**

At December 31, 2020	**Canadian Division**	**UK Division**	**Total**
Total liabilities	112,229	22,078	**134,307**
Other:			
Long-term debt (note 11)	(40,657)	-	(40,657)
Total segment liabilities	**71,572**	**22,078**	**93,650**

26. IMPAIRMENT OF ASSETS

(a) Impairment Testing at December 31, 2021

The Corporation performed its annual assessment for goodwill impairment for the Canadian division and for the UK division as at December 31, 2021 in accordance with its policy described in Note 2(k).

At December 31, 2021, the recoverable amount for the CGUs was determined using either a probability-weighted discounted cash flow approach (hospitality CGUs) or an earnings multiple approach (healthcare CGUs). The Corporation references Board approved budgets and cash flow forecasts, trailing twelve-month EBITDA, implied multiples and appropriate discount rates in the valuation calculations.

For the healthcare CGUs whereby the earnings multiple approach is used the implied multiple is calculated by utilizing the average multiples of comparable public companies. For the healthcare CGU's, the Corporation used implied average forward multiple of 10.80 to calculate the recoverable amounts. For these CGUs, based on testing performed at December 31, 2021 no impairment was determined to exist.

For the hospitality CGUs the probability weighted discounted cash flow approach was used at both March 31, 2020, December 31, 2020 and December 31, 2021 to capture the increased risk and uncertainty arising from COVID-19.

For the December 31, 2021 impairment test, management's probability weighted approach was evaluated based on an equally weighted probability of a continued one year downturn in sales to the worst case scenario of a two year downturn in sales. The scenarios estimated a decline of 5% to 25% for 2022, and 0% to 10% for 2023, with sales returning to normalized levels thereafter with sales growth estimates used 2%. For the December 31, 2020 impairment test, management's probability weighted approach was evaluated based on an equally weighted probability of a continued two year downturn in sales to the worst case of a three year downturn in sales. The scenarios estimated a decline of 45% for 2021, 30% for 2022, and 5% for 2023 with sales returning to normalized levels thereafter with sales growth estimates used 2%. This contrasts to the March 31, 2020 impairment test which contemplated a decline in 2020 and 2021 revenues only.

As at December 31, 2021 for the goodwill associated with the remaining hospitality CGUs (the UK Division, Vancouver 2 and Victoria) the recoverable amounts was estimated to be £53,083, $31,176 and $8,290 (2020- £41,070, $21,300 and $6,484) respectively which exceeded the carrying amounts of the CGUs. No further impairment was therefore required for any of these CGUs.

The key assumptions in calculating the recoverable amount of the remaining CGU's were as follows:

	December 31, 2021	December 31, 2020
Long-term growth rate %	2.0%	2.0%
Pre-tax discount rate %	13.8% to 16.2%	11.6% to 12.5%

In addition to the key assumptions noted above, management has also evaluated other reasonable changes in estimates and assumptions and did not identify any other instances that could cause the carrying amount of these CGUs to exceed the recoverable amount. The table below summarizes the sensitivity of the key assumptions.

		Sensitivity	
	Recoverable Amount	Long-Term Growth Rate Decrease of 1%	Pre-Tax Discount Rate Increase of 1%
UK Division	£53,083	-£4,988	-£4,915
Vancouver 2 Division	$31,176	-$2,818	-$3,152
Victoria	$8,290	-$834	-$770

The Corporation will continue to carefully monitor the situation as it pertains to the COVID-19 pandemic and further consider if there are new, or additional indicators, that exist during fiscal 2022.

With the ongoing evolution of the COVID-19 pandemic, the length and severity of these developments is subject to significant uncertainty. Accordingly, new developments may materially and adversely affect assumptions used in the consideration of the impairment of assets, impact whether a CGU has been impaired, and may change prior recorded impairment amounts.

(b) Impairment Testing at March 31, 2020

Management assessed that impairment indicators existed at March 31, 2020, specifically for the five CGUs that rely primarily on hospitality revenues as a result of the significant impact that COVID-19 had on the hospitality industry.

For the five CGUs who rely primarily on hospitality revenues an impairment test was completed using a probability-weighted discounted cash flow approach whereby the recoverable amount was based on 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).

The key assumptions in calculating the recoverable amount of the five CGU's were as follows:

	March 31, 2020
Long-term growth rate %	2.0% to 3.0%
Pre-tax discount rate %	10.5% to 12.5%

For the March 31, 2020 impairment test, management's probability weighted approach was evaluated based on an equally weighted probability of a one-year downturn in sales to the worst case of a two year downturn in sales. The scenarios estimated a decline of 70% for 2020 and 50% for 2021, with sales returning to normalized levels thereafter with sales growth estimates used between 2% to 3%.

As a result of this testing at March 31, 2020, an impairment loss of $5,516 was recognized for three CGUs in the Canadian division, of which $3,177 was allocated to goodwill and $2,339 was allocated to PP&E. The table below summarizes the impairment details:

GCU	Allocated to Goodwill	Allocated to PP&E	Total Impairment Recorded	Recoverable Amount
Montréal	823	-	823	2,485
Québec	654	2,339	2,993	(1,917)
Victoria	1,700	-	1,700	5,433
	3,177	2,339	5,516	6,001

27. GOVERNMENT GRANTS

The Corporation received government assistance for both their Canadian and UK division, under the following government programs:

Canadian Division

- The Canada Emergency Wage Subsidy ("CEWS") program was introduced by the Government of Canada on March 27, 2020, reimbursing eligible employers who have experienced the required reduction in revenue for a portion of salaries paid out to employees during the pandemic. During the year ended December 31, 2021, the Corporation submitted claims of $921 (2020 - $8,348) under the CEWS program, with $0 (2020 - $299) outstanding in receivables on the Corporation's Consolidated Statements of financial position at December 31, 2021.

- During 2020, the Corporation received $2,788 of linen in service from the Ontario Ministry of Health in exchange for a contractual commitment to provide a deferred linen service credit of $1,665 to various Ontario hospitals allocated over the useful life of the linen. The difference between the fair value of linen in service received and

the linen service credit is considered to be government assistance related to an asset that has been recorded as a reduction in the value of the linens and will recognized as a reduction of the linen amortization charge over the life of the linens in service. The deferred linen service credit of $810 (2020 - $1,665) is reflected as a contract liability on the Corporation's Consolidated Statements of financial position at December 31, 2021.

UK division

- The Coronavirus Job Retention Scheme ("CJRS") was introduced by the UK government on March 20, 2020 and provides eligible employers the ability to access support to continue paying part of their employees' salary for those employees that would otherwise have been laid off during the crisis. During the year ended December 31, 2021, the Corporation submitted claims of £1,627 ($2,826) (2020 - £3,433 ($5,907)) under the CJRS program with £0 ($0) (2020 - £58 ($101)) outstanding in receivables on the Corporation's Consolidated Statements of financial position at December 31, 2021.

In accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the government grants have been recognized on the Corporation's consolidated statements. During the years ended December 31, 2021, $3,746 (2020 - $14,255) of government grants were offset to operating expenses which includes, wages and benefits of $2,633 (2020 - $10,684), delivery of $864 (2020 - $2,281), and corporate costs of $249 (2020 - $1,290).

During the year ended December 31, 2021, $855 (2020 – $0) of the deferred linen service credit was recognized in revenue such that the closing balance of $810 (2020 - $1,665) is reflected as a contract liability on the Corporation's Consolidated Statements of financial position at December 31, 2021.

28. SUBSEQUENT EVENTS

a) Dividends

The Corporation's Board of Directors declared an eligible dividend of $0.10 per Common share of the Corporation payable on each of February 15, March 15, and April 14, 2022 to Shareholders of record on January 31, February 28, and March 31, 2022, respectively.

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Audit Committee Chair

MATTHEW HILLS, MBA

STEVEN MATYAS, BSC

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

MICHAEL PERCY, PHD
Board Chair

Executive Officers

LINDA McCURDY, MBA
President & CEO

SEAN CURTIS
Senior VP & COO

KRISTIE PLAQUIN, CPA, CA
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TRANSFER AGENT & REGISTRAR
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