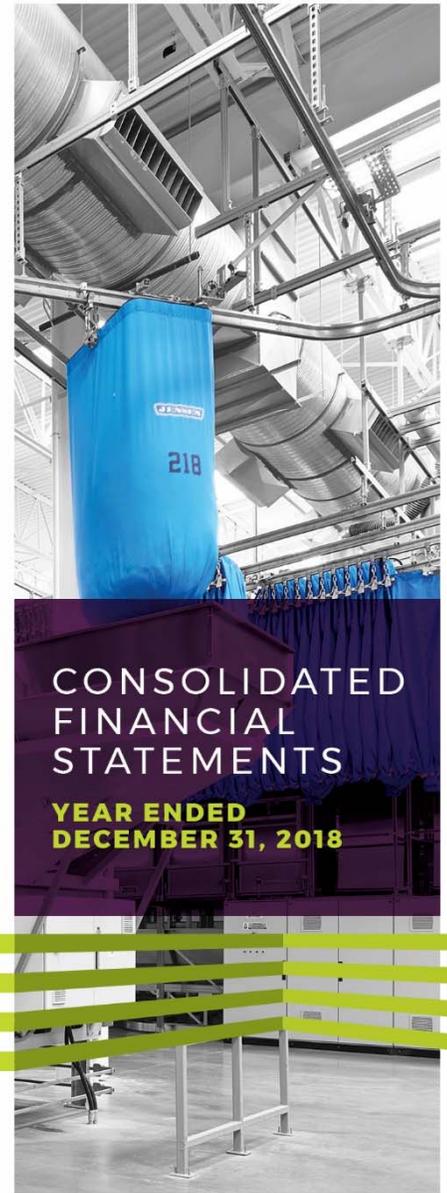




K·BRO

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Independent auditor's report

To the Shareholders of K-Bro Linen Inc.

Our opinion

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

What we have audited

The Company's consolidated financial statements comprise:

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

Basis for opinion

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

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

Independence

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

Other information

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

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



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

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

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

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



- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Edmonton, Alberta
March 13, 2019

Consolidated Statements of Financial Position

(thousands of Canadian dollars)

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

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

Approved by the Board of Directors

/s/Ross S. Smith

Ross S. Smith
Director

/s/ Matthew Hills

Matthew Hills
Director

Consolidated Statements of Earnings & Comprehensive Income

(thousands of Canadian dollars, except share and per share amounts)

| Years ended December 31 | 2018 | 2017 |
|--|-----------------|-----------------|
| Revenue | \$ 239,534 | \$ 170,559 |
| Expenses | | |
| Wages and benefits | 99,992 | 70,352 |
| Linen (note 7) | 26,699 | 18,998 |
| Utilities | 14,991 | 10,393 |
| Delivery | 30,736 | 18,292 |
| Occupancy costs | 9,883 | 6,460 |
| Materials and supplies | 8,471 | 5,537 |
| Repairs and maintenance | 8,215 | 5,627 |
| Corporate | 11,030 | 10,879 |
| (Gain) loss on disposal of property, plant and equipment | (64) | 36 |
| | 209,953 | 146,574 |
| EBITDA | 29,581 | 23,985 |
| Other expenses | | |
| Depreciation of property, plant and equipment (note 8) | 15,871 | 11,606 |
| Amortization of intangible assets (note 9) | 3,004 | 1,767 |
| Finance expense (note 13) | 3,315 | 1,133 |
| | 22,190 | 14,506 |
| Earnings before income taxes | 7,391 | 9,479 |
| Current income tax (recovery) expense | (984) | 2,137 |
| Deferred income tax expense | 2,206 | 1,624 |
| Income tax expense | 1,222 | 3,761 |
| Net earnings | \$ 6,169 | \$ 5,718 |
| Other comprehensive income (loss) | | |
| Items that may be subsequently reclassified to earnings: | | |
| Foreign currency translation differences on foreign operations | 1,738 | (72) |
| Total comprehensive income | \$ 7,907 | \$ 5,646 |
| Net earnings per share (note 18) : | | |
| Basic | \$ 0.59 | \$ 0.63 |
| Diluted | \$ 0.59 | \$ 0.63 |
| Weighted average number of shares outstanding: | | |
| Basic | 10,466,458 | 9,083,693 |
| Diluted | 10,500,014 | 9,114,874 |

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

Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)

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

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

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

Consolidated Statements of Cash Flow

(thousands of Canadian dollars)

| Years ended December 31 | 2018 | 2017 |
|--|-----------------|------------------|
| OPERATING ACTIVITIES | | |
| Net earnings | \$ 6,169 | \$ 5,718 |
| Depreciation of property, plant and equipment (note 8) | 15,871 | 11,606 |
| Amortization of intangible assets (note 9) | 3,004 | 1,767 |
| Lease inducements, net of amortization (note 14) | 262 | 401 |
| Accretion expense (note 11) | 129 | 42 |
| Employee share based compensation expense | 1,817 | 1,508 |
| (Gain) loss on disposal of property, plant and equipment | (64) | 36 |
| Settlement of provision (note 11) | (460) | - |
| Deferred income taxes | 2,206 | 1,624 |
| | 28,934 | 22,702 |
| Change in non-cash working capital items (note 21) | (11,380) | (3,922) |
| Cash provided by operating activities | 17,554 | 18,780 |
| FINANCING ACTIVITIES | | |
| Net proceeds of revolving debt | 27,423 | 16,980 |
| Net proceeds from issuance of common shares | - | 87,655 |
| Dividends paid to shareholders | (12,646) | (10,872) |
| Cash provided by financing activities | 14,777 | 93,763 |
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment (note 8) | (36,527) | (44,494) |
| Proceeds from disposal of property, plant and equipment | 397 | - |
| Purchase of intangible assets (note 9) | (106) | - |
| Acquisition of business (note 6) | (4,700) | (56,774) |
| Cash used in investing activities | (40,936) | (101,268) |
| Change in cash and cash equivalents during the year | (8,605) | 11,275 |
| Effect of exchange rate changes on cash and cash equivalents | 156 | 1 |
| Cash and cash equivalents, beginning of year | 11,276 | - |
| Cash and cash equivalents, end of year | \$ 2,827 | \$ 11,276 |
| Supplementary cash flow information | | |
| Interest paid | \$ 2,959 | \$ 703 |
| Income taxes paid | \$ 1,199 | \$ 5,000 |

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

1 Basis of Presentation

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

2 Significant accounting policies

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

a) Basis of Measurement

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

b) Principles of Consolidation

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

c) Cash and Cash Equivalents

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

Notes to the Consolidated Financial Statements

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

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

d) Linen in Service

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

e) Revenue Recognition

i) Accounting policy after January 1, 2018

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

1. Identifying the Contract

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

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

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

2. Identifying performance obligations in a contract

Linen services are provided to the Corporation's customers consecutively over a period of time (i.e. daily deliveries over the contract term) and the same method is used to measure

Notes to the Consolidated Financial Statements

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

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

3. Determining the transaction price

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

4. Allocating the Transaction Price

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

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

5. Performance obligations satisfied over time

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

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

ii) Accounting policy up to December 31, 2017

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

Notes to the Consolidated Financial Statements

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

f) Property, Plant and Equipment

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

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

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

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

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

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

g) Intangible Assets

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

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

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

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

Notes to the Consolidated Financial Statements

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

h) Impairment of Non-Financial Assets

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

i) Income Taxes

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

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

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

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

j) Business Combinations

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

k) Goodwill

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

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

Notes to the Consolidated Financial Statements

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

l) Earnings Per Share

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

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

m) Foreign Currency Translation

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

Translation of foreign entities

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

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

Translation of transactions and balances

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

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

n) Provision

Provisions are recognised when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be

Notes to the Consolidated Financial Statements

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

required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

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

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

o) Lease Inducements

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

p) Employee Benefits

Post-employment benefit obligations

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

Existing equity-based compensation plan of the Corporation

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

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

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

Notes to the Consolidated Financial Statements

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

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

q) Financial Instruments

i) Accounting policy after January 1, 2018

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

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

ii) Accounting policy up to December 31, 2017

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

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

Loans, receivables and other liabilities

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

The Corporation has made the following classifications:

| | Classification | Measurement |
|--|-----------------------|----------------|
| Financial assets | | |
| Accounts receivable | Loans and receivables | Amortized cost |
| Financial liabilities | | |
| Accounts payable and accrued liabilities | Other liabilities | Amortized cost |
| Dividends payable | Other liabilities | Amortized cost |
| Long-term debt | Other liabilities | Amortized cost |

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

r) Impairment of Financial Assets

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

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

Notes to the Consolidated Financial Statements

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

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

3 Changes in accounting policies

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

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

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

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

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

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

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

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

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

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

Notes to the Consolidated Financial Statements

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

- On June 20, 2016 the IASB issued an amendment to IFRS 2 "Share based Payment" addressing three classification and measurement issues. The amendment clarifies the measurement basis for cash-settled, share based payments and the accounting for modifications that change an award from cash-settled to equity settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly-equity settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share based payment and pay that amount to the tax authority. The amendments are effective for periods beginning on or after January 1, 2018. The Corporation adopted the amended requirements of IFRS 2 effective January 1, 2018, for any accounting or disclosure changes required under this standard. Adoption of the amendments did not result in any changes to the presentation or disclosures in the financial statements.

4 New Standards and interpretations not yet adopted

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

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

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

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

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

- The Corporation has not reassessed, under IFRS 16, contracts that were identified as leases under previous accounting standard (IAS 17).

Notes to the Consolidated Financial Statements

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

- The Corporation will use a single discount rate to a portfolio of leases with reasonably similar underlying characteristics.
- The Corporation has used hindsight in determining the lease term where the lease contracts contain options to extend or terminate the lease.
- The Corporation expects to adopt the recognition exemptions permitted for short-term leases (less than twelve months) and leases for which the underlying asset has a low value, whereby the lease payments associated with these leases will continue to be expensed on a straight-line basis over the lease term.

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

5 Critical accounting estimates and judgments

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

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

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

Impairment of goodwill and non-financial assets

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

Recognition of Rebate Liabilities

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

Linen in Service

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

Notes to the Consolidated Financial Statements

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

Segment identification

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

Provisions

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

Business Combinations

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

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

6 Business Acquisitions

Linitek

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

Fishers

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

7 Linen in service

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

8 Property, plant and equipment

| | Land | Buildings | Laundry Equipment ⁽¹⁾ | Office Equipment | Delivery Equipment | Computer Equipment | Leasehold Improvements ⁽²⁾ | Spare Parts | Total |
|--|-----------------|------------------|----------------------------------|------------------|--------------------|--------------------|---------------------------------------|-----------------|-------------------|
| Year ended, December 31, 2017 | | | | | | | | | |
| Opening net book amount | \$ 2,454 | \$ 17,265 | \$ 69,617 | \$ 304 | \$ 250 | \$ 377 | \$ 22,428 | \$ 563 | \$ 113,258 |
| Additions ⁽⁴⁾ | - | 20 | 36,599 | 49 | 17 | 417 | 13,141 | 144 | 50,387 |
| Acquisition of business ⁽⁵⁾ | 1,571 | 3,947 | 14,177 | - | - | - | - | - | 19,695 |
| Disposals | - | - | (36) | - | - | - | - | - | (36) |
| Depreciation charge | - | (990) | (7,207) | (108) | (59) | (423) | (2,819) | - | (11,606) |
| Effect of movement in exchange rates | (2) | (7) | (21) | - | - | - | - | - | (30) |
| Closing net book amount | \$ 4,023 | \$ 20,235 | \$ 113,129 | \$ 245 | \$ 208 | \$ 371 | \$ 32,750 | \$ 707 | \$ 171,668 |
| At December 31, 2017 | | | | | | | | | |
| Cost | \$ 4,023 | \$ 22,972 | \$ 160,031 | \$ 759 | \$ 701 | \$ 1,695 | \$ 45,163 | \$ 707 | \$ 236,051 |
| Accumulated depreciation | - | (2,737) | (46,902) | (514) | (493) | (1,324) | (12,413) | - | (64,383) |
| Net book amount | \$ 4,023 | \$ 20,235 | \$ 113,129 | \$ 245 | \$ 208 | \$ 371 | \$ 32,750 | \$ 707 | \$ 171,668 |
| Year ended, December 31, 2018 | | | | | | | | | |
| Opening net book amount | \$ 4,023 | \$ 20,235 | \$ 113,129 | \$ 245 | \$ 208 | \$ 371 | \$ 32,750 | \$ 707 | \$ 171,668 |
| Additions ⁽⁴⁾ | - | 152 | 20,979 | 273 | 77 | 979 | 14,318 | 526 | 37,304 |
| Acquisition of business ⁽⁶⁾ | - | - | 712 | - | 138 | 81 | - | - | 931 |
| Disposals | - | - | (310) | - | (23) | - | - | - | (333) |
| Transfers | - | (257) | - | - | - | - | 257 | - | - |
| Depreciation charge | - | (1,129) | (10,654) | (132) | (76) | (473) | (3,407) | - | (15,871) |
| Effect of movement in exchange rates | 44 | 108 | 396 | 1 | - | - | - | - | 549 |
| Closing net book amount | \$ 4,067 | \$ 19,109 | \$ 124,252 | \$ 387 | \$ 324 | \$ 958 | \$ 43,918 | \$ 1,233 | \$ 194,248 |
| At December 31, 2018 | | | | | | | | | |
| Cost | \$ 4,067 | \$ 22,980 | \$ 179,727 | \$ 975 | \$ 872 | \$ 2,755 | \$ 59,679 | \$ 1,233 | \$ 272,288 |
| Accumulated depreciation | - | (3,871) | (55,475) | (588) | (548) | (1,797) | (15,761) | - | (78,040) |
| Net book amount | \$ 4,067 | \$ 19,109 | \$ 124,252 | \$ 387 | \$ 324 | \$ 958 | \$ 43,918 | \$ 1,233 | \$ 194,248 |

- (1) Included in laundry equipment are assets under development in the amount of \$1,582 (2017 - \$23,625). These assets are not available for service and accordingly are not presently being depreciated.
- (2) Included in leasehold improvements are assets under development in the amount of \$0 (2017 - \$8,251). These assets are not available for service and accordingly are not presently being depreciated.
- (3) Total property, plant and equipment additions include amounts in accounts payable of \$6,127 (2017 - \$5,799).
- (4) Additions include amounts from the Canadian Division of \$34,421 (2017 - \$50,387) and from the UK Division of \$2,883 (2017 - \$0).
- (5) Includes amounts related to property, plant and equipment assets of the acquired business which are included in the reportable segment for the UK division.
- (6) Includes amounts related to property, plant and equipment assets of the acquired business which are included in the reportable segment for the Canadian division.

Notes to the Consolidated Financial Statements

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

9 Intangible assets

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

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

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

Notes to the Consolidated Financial Statements

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

10 Goodwill

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

| | 2018 | 2017 |
|--------------------------|------------------|------------------|
| Calgary | \$ 8,082 | \$ 5,382 |
| Edmonton | 4,346 | 4,346 |
| Vancouver 2 | 3,413 | 3,413 |
| Victoria | 3,208 | 3,208 |
| Vancouver 1 | 2,630 | 2,630 |
| Montréal | 823 | 823 |
| Québec | 654 | 654 |
| Canadian division | \$ 23,156 | \$ 20,456 |

| | 2018 | 2017 |
|---|------------------|------------------|
| UK division | \$ 18,100 | \$ 18,100 |
| Changes due to movement in exchange rates | 480 | (30) |
| UK division | \$ 18,580 | \$ 18,070 |
| Goodwill | \$ 41,736 | \$ 38,526 |

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

Key assumptions used in 2018 impairment test

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

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

Notes to the Consolidated Financial Statements

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

Key assumptions used in the 2017 impairment test

Canadian Division

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

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

UK Division

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

11 Provisions

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

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

Notes to the Consolidated Financial Statements

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

The Corporation recorded the following provision activity during the year:

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

12 Long-term debt

| | Prime Rate Loan ⁽¹⁾ |
|--------------------------------------|-----------------------------------|
| At January 1, 2017 | \$ 25,800 |
| Net proceeds from debt | 16,980 |
| Closing balance at December 31, 2017 | \$ 42,780 |
| At January 1, 2018 | \$ 42,780 |
| Net proceeds from debt | 27,423 |
| Closing balance at December 31, 2018 | \$ 70,203 |

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

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

Drawings under the revolving credit facility are available by way of Bankers' Acceptances, Canadian prime rate loans, Libor or 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.

Notes to the Consolidated Financial Statements

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

13 Finance expense

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

14 Unamortized lease inducements

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

15 Income taxes

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

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

16 Contingencies and commitments

a) Contingencies

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

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

Notes to the Consolidated Financial Statements

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

b) Commitments

Operating leases and utility commitments

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

Operating lease commitments

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

Utility commitments

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

Linen purchase commitments

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

Property, plant and equipment commitments

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

17 Share Capital

a) Authorized

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

Notes to the Consolidated Financial Statements

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

b) Issued

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

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

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

18 Earnings per share

a) Basic

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

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

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

b) Diluted

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

Notes to the Consolidated Financial Statements

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

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

19 Long-Term Incentive Plan

An account was formed to hold equity grants issued under the terms of the LTI on behalf of the participants (the "LTIP Account") and under certain circumstances the Corporation may be the beneficiary of forfeited Common shares held by the LTIP Account. The Corporation has control over the LTIP Account as it is exposed, or has rights, to variable returns and has the ability to affect those returns through its power over the LTIP Account. Therefore the Corporation has consolidated the LTIP Account. Compensation expense is recorded by the Corporation in the period earned. Dividends paid by the Corporation with respect to unvested Common shares held by the LTIP Account are paid to LTI participants. Unvested Common shares held by the LTIP Account are shown as a reduction of shareholders' equity.

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

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

20 Dividends to shareholders

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

The Corporation's policy is to pay dividends to Shareholders of its available cash to the maximum extent possible consistent with good business practice considering requirements for capital expenditures, working capital, growth capital and other reserves considered advisable by the Directors of the Corporation. All such dividends are discretionary. Dividends are declared payable each month to the Shareholders on the last business day of each month and are paid by the 15th day of the following month.

21 Net change in non-cash working capital items

Notes to the Consolidated Financial Statements

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

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

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

22 Financial instruments

a) Fair value

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

b) Financial risk management

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

c) Price risk

Currency risk

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

Interest rate risk

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

Other price risk

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

d) Credit risk

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

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

Cash and cash equivalents

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

Accounts receivable

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively, to determine whether there was objective evidence that impairment had been incurred but not yet been identified. For these receivables, the estimated impairment losses were recognized in a separate provision for impairment. The Corporation considered that there was evidence of impairment if any of the following indicators were present:

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

Notes to the Consolidated Financial Statements

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

e) Liquidity risk

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

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

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

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

Management, to reduce liquidity risk, has historically renewed the terms of the credit facility in advance of its maturity dates and the Corporation has maintained financial ratios that management believes are conservative compared to financial covenants applicable to the credit facility. A significant portion of the available facility remains undrawn.

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

23 Capital management

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

24 Related party transactions

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

25 Expenses by nature

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

Notes to the Consolidated Financial Statements

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

26 Segmented information

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

1. Canadian division - provides laundry and linen services to the healthcare and hospitality sectors through nine operating divisions located in Vancouver, Victoria, Calgary, Edmonton, Regina, Toronto, Montréal, and Québec City. Management has assessed that the services offered and the economic characteristics associated with these divisions are similar, and therefore they have been aggregated into one reportable segment which operates exclusively in Canada. This reportable segment is inclusive of the Corporation’s acquisition of Linitex on October 3, 2018.
2. UK division - provides laundry and linen services primarily to the hospitality sector, with other sectors including healthcare, manufacturing and pharmaceutical, through seven sites including one distribution center, which are located in Cupar, Perth, Newcastle, Livingston, Inverness and Coatbridge.

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

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

Notes to the Consolidated Financial Statements

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

Segment revenue

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

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

In Edmonton, the Corporation is the significant supplier of laundry and linen services to the entity which manages all major healthcare facilities in the region and this contract expires on March 31, 2023. In Calgary, the major customer is contractually committed to February 28, 2020, in Vancouver the major customer is contractually committed to March 1, 2027, and in Saskatchewan the major customer is contractually committed to June 1, 2025. For the years ended December 31, 2018, from these four major customers the Corporation has recorded revenue of \$98,850 (2017 – \$92,340), representing 41.2% (2017 – 54.1%) of total revenue.

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

Notes to the Consolidated Financial Statements

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

Segment net earnings and EBITDA

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

| 2018 | Canadian division | UK division | Total |
|--------------|------------------------------|--------------------|--------------|
| Net earnings | \$ 2,701 | \$ 3,468 | \$ 6,169 |
| EBITDA | \$ 21,370 | \$ 8,211 | \$ 29,581 |

| 2017 | Canadian division | UK division ⁽¹⁾ | Total |
|--------------|------------------------------|-----------------------------------|--------------|
| Net earnings | \$ 8,599 | \$ (2,881) | \$ 5,718 |
| EBITDA | \$ 26,493 | \$ (2,508) | \$ 23,985 |

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

Notes to the Consolidated Financial Statements

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

Segment assets

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

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

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

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

Notes to the Consolidated Financial Statements

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

Segment liabilities

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

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

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

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

Subsequent events

a) Dividends

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

b) Alberta Healthcare Contract Extension

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