Q1, **2019**

MANAGEMENT'S DISCUSSION & ANALYSIS

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

The following Management's Discussion and Analysis ("MD&A") is supplemental to, and should be read in conjunction with, the unaudited interim Condensed Consolidated Financial Statements of K-Bro Linen Inc. ("the Corporation") for the three months ended March 31, 2019 and the audited Consolidated Financial Statements, as well as the MD&A, for the year ended December 31, 2018. The Corporation and its wholly-owned subsidiaries, including K-Bro Linen Systems Inc., are collectively referred to as "K-Bro" in this MD&A.

Management is responsible for the information contained in this MD&A and its consistency with information presented to the Audit Committee and Board of Directors. All information in this document has been reviewed and approved by the Audit Committee and Board of Directors. This review was performed by management with information available as of May 9, 2019.

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

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

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

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

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

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INTRODUCTION

Core Business

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

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

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

Industry and Market

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

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

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

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

Industry Characteristics and Trends

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

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

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

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

Customers and Product Mix

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	Three Months Ended March 31,						
(thousands, except percentages and per share amounts)	Canadian Division 2019	UK Division 2019	2019 [(2)]	Canadian Division 2018	UK Division [(1)] 2018	2018	2017 [(1)]
Revenue	$ 44,533	$ 13,250	**$ 57,783**	$ 43,292	$ 12,092	$ 55,384	$ 38,958
EBITDA	7,384	1,731	**9,115**	5,518	682	6,200	1,770
EBITDA without adoption of IFRS 16	5,960	843	**6,803**	5,518	682	6,200	1,770
Net earnings (loss)	731	(236)	**495**	1,048	(401)	647	1,250
Net earnings (loss) without adoption of IFRS 16	807	(227)	**580**	1,048	(401)	647	1,250
Net earnings (loss) per share:							
Basic	$ 0.070	$ (0.022)	**$ 0.047**	$ 0.100	$ (0.038)	$ 0.062	$ 0.157
Diluted	$ 0.069	$ (0.022)	**$ 0.047**	$ 0.100	$ (0.038)	$ 0.062	$ 0.156
Net earnings (loss) without adoption of IFRS 16 per share:							
Basic	$ 0.077	$ (0.022)	**$ 0.055**	$ 0.100	$ (0.038)	$ 0.062	$ 0.157
Diluted	$ 0.077	$ (0.022)	**$ 0.055**	$ 0.100	$ (0.038)	$ 0.062	$ 0.156
Total assets			**$ 360,563**			$ 312,193	$ 180,583
Long-term debt			**67,444**			56,356	32,363
Weighted average number of shares outstanding:							
Basic			**10,496,590**			10,453,622	7,978,846
Diluted			**10,545,970**			10,491,424	7,999,181

(1) Prior to the acquisition of Fishers on November 27, 2017, K-Bro was reporting and operating as a single Canadian division.
(2) Effective January 1, 2019, the Corporation has adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective method but has not restated comparatives for the prior periods, as permitted under the specific transitional provisions of the standards. To enable the comparability of previous periods, the Corporation has provided the 2019 figures for both EBITDA and net earnings without adoption of IFRS 16 as separate line items. Refer to the Accounting Changes section of this MD&A for more information.

SUMMARY OF INTERIM RESULTS, AND KEY EVENTS

Financial Growth

Net earnings for the first quarter were $0.5 million or $0.06 per share (basic). Cash generated by operating activities for the quarter was $9.7 million and distributable cash flow was $5.6 million. Revenue increased in the first quarter of 2019 to $57.8 million or by 4.3% compared to 2018. This increase was due to volume from the acquisition of Linitek, organic growth at existing customers, and new customers secured in existing markets.

EBITDA (see Terminology) increased in the first quarter to $9.1 million from $6.2 million in 2018, which is an increase of 47.0%. On a consolidated basis, the EBITDA margin increased from 11.2% in 2018 to 15.8% in 2019. For the Canadian division, the EBITDA margin increased to 16.6% from 12.7% for the comparative quarter of 2019. For the UK division, the EBITDA margin increased to 13.1% from 5.6% for the comparative quarter of 2019. The changes in EBITDA and EBITDA margin, relates primarily to the change in accounting policies and the adoption of IFRS 16 Leases. This change resulted in an increase to EBITDA of $2.3 million and accounts for 4.0% of the change in EBITDA margin for the three months ended March 31, 2019. The remainder of the increase is due to efficiencies gained as a result of the capital expenditures made in our new facilities, offset by higher commodity costs in British Columbia as a result of a temporary natural gas supply shortage, rising minimum wage rates in advance of future revenue price escalators, and tight labour markets in both British Columbia and Quebec.

During the quarter, the Corporation incurred one-time costs of approximately $0.3 million. For the Canadian operations the EBITDA margin with and without the adoption of IFRS 16 respectively was 16.6% and 13.4% respectively. After adjusting for the one-time costs the Canadian EBITDA margin would have been 14.1% without the adoption of IFRS 16.

Near-Term and Long-Term Growth and Margin Impact

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

These investments have been made because management believes that new opportunities, both current and future, justify the significant additional capacity. The construction and/or upgrade of three of our large facilities enables us to bid on a significant amount of additional business, but has created margin pressure through 2017, 2018 and Q1 2019 as K-Bro incurred significant one-time and transition costs associated with these large investments. Management believes that the one-time and transition costs incurred will position K-Bro to achieve more growth and a lower cost structure into the future and that K-Bro will return to normalized margins, for its Canadian operations, closer to those achieved in 2015 as we progress through 2019.

Key events in our markets are summarized below.

Vancouver Facility Development

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

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

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

Business Acquisition

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

Alberta Contract Award

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

National Contract Award

Effective January 1, 2019, K-Bro replaced its existing agreement with Avendra Canada, Inc. (“Avendra”) with a new five-year agreement pursuant to which K-Bro became an Avendra-approved provider of laundry and linen services across Canada, with exclusivity in K-Bro’s markets commencing at various stages throughout the term. Avendra is North America’s leading hospitality procurement and supply chain service provider. While K-Bro has existing contracts with and services the customers

initially covered by the agreement, the new arrangement with Avendra will strengthen its relationships with these customers and secure K-Bro's position with them as well as open up new opportunities in the hospitality segment. These existing customers currently represent approximately 24% of K-Bro's Canadian hospitality revenue for the year ended December 31, 2018.

Revolving Credit Facility

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

OUTLOOK

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

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

Effects of Economic Uncertainty

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

- Approximately 56.2% of its revenues in the quarter were from large publicly funded Canadian healthcare customers which are geographically diversified across multiple provinces; and
- At March 31, 2019, K-Bro had unutilized borrowing capacity of $31.4 million or 31.4% of the revolving credit line available.

RESULTS OF OPERATIONS

Key Performance Drivers

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

(thousands, except percentages and per share amounts) Category	Indicator	Canadian Division Q1 2019	UK Division Q1 2019	**Q1 [4] 2019**	Canadian Division Q1 2018	UK [3] Division Q1 2018	Q1 2018
Growth	EBITDA [1]	33.8%	153.8%	**47.0%**	15.8%		30.1%
	EBITDA without adoption of IFRS 16	8.0%	23.6%	**9.7%**	15.8%		30.1%
	Revenue	2.9%	9.6%	**4.3%**	11.1%		42.2%
	Distributable cash flow [5]			**8.2%**			15.5%
Profitability	EBITDA [1]	$ 7,384	$ 1,731	**$ 9,115**	$ 5,518	$ 682	$ 6,200
	EBITDA margin	16.6%	13.1%	**15.8%**	12.7%	5.6%	11.2%
	EBITDA without adoption of IFRS 16	$ 5,960	$ 843	**$ 6,803**	$ 5,518	$ 682	$ 6,200
	EBITDA without adoption of IFRS 16 margin	13.4%	6.4%	**11.8%**	12.7%	5.6%	11.2%
	Net earnings (loss)	$ 731	$ (236)	**$ 495**	$ 1,048	$ (401)	$ 647
	Net earnings (loss) without adoption of IFRS 16	$ 807	$ (227)	**$ 580**	$ 1,048	$ (401)	$ 647
Stability	Debt to total shareholder's equity [2]			**26.0%**			22.5%
	Unutilized line of credit			**$ 31,406**			$ 41,994
	Cash on hand			**$ 2,548**			$ 9,810
	Payout ratio			**56.3%**			60.6%
	Dividends declared per share			**$ 0.300**			$ 0.300
Cost containment	Wages and benefits	41.3%	37.6%	**40.5%**	43.2%	38.2%	42.2%
	Utilities	6.9%	9.5%	**7.5%**	6.1%	7.5%	6.4%
	Expenses included in EBITDA	83.4%	86.9%	**84.2%**	87.3%	94.4%	88.8%

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

(2) Debt to total shareholder's equity is defined as total debt divided by total capital. See Terminology.

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

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

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

Financial Impact of the adoption of new accounting standards

As discussed in Note 3 – Adoption of new accounting standards, of the unaudited interim Condensed Consolidated Financial Statements of K-Bro Linen Inc., the Corporation has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

The tables below provide a reconciliation of actual Q1 2019 financial results compared with what would have occurred had we not adopted the new accounting policy.

EBITDA without adoption of IFRS 16

For the three months ended March 31,	Segment EBITDA 2019	Adjustments on adoption of IFRS 16 2019	EBITDA without adoption of IFRS 16 2019	2018
Canadian Division	$ 7.4	$ (1.4)	$ 6.0	$ 5.5
UK Division	1.7	(0.9)	0.8	0.7
	$ 9.1	**$ (2.3)**	**$ 6.8**	**$ 6.2**

Net earnings without adoption of IFRS 16

For the three months ended March 31,	Segment Net earnings (loss) 2019	Adjustments on adoption of IFRS 16 2019	Net earnings (loss) without adoption of IFRS 16 2019	2018
Canadian Division	$ 0.7	$ 0.1	$ 0.8	$ 1.0
UK Division	(0.2)	0.0	(0.2)	(0.4)
	$ 0.5	**$ 0.1**	**$ 0.6**	**$ 0.6**

Quarterly Financial Information - Consolidated

Historically, the Corporation's financial and operating results, particularly as it relates to Fishers, are stronger in the second and third quarters as a result of seasonality and the associated higher hospitality volumes. Other fluctuations in net income from quarter-to-quarter can also be attributed to hiring and labour cost trends, timing of linen purchases, utility costs, timing of repairs and maintenance expenditures, business development, capital spending patterns and changes in corporate tax rates and income tax expenses.

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

Quarterly Financial Information - Consolidated	2019 (5)	2018				2017		
(thousands, except percentages and per share amounts)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Healthcare revenue	**34,103**	34,469	33,378	33,868	33,601	31,936	29,021	28,499
Hospitality revenue	**23,680**	24,971	30,594	26,870	21,783	15,573	14,577	11,995
Total revenue (4)	**57,783**	59,440	63,972	60,738	55,384	47,509	43,598	40,494
Expenses included in EBITDA	**48,668**	52,821	55,662	52,286	49,184	43,056	35,487	33,837
EBITDA(1)	**9,115**	6,619	8,310	8,452	6,200	4,453	8,111	6,657
EBITDA as a % of revenue (EBITDA margin)	**15.8%**	11.1%	13.0%	13.9%	11.2%	9.4%	18.6%	16.4%
Adjusted EBITDA(2)	**9,115**	6,619	8,310	8,452	6,200	7,284	8,111	6,657
Adjusted EBITDA as a % of revenue (Adjusted EBITDA margin)	**15.8%**	11.1%	13.0%	13.9%	11.2%	15.3%	18.6%	16.4%
EBITDA without adoption of IFRS 16	**6,803**	6,619	8,310	8,452	6,200	4,453	8,111	6,657
EBITDA without adoption of IFRS 16 as % of revenue	**11.8%**	11.1%	13.0%	13.9%	11.2%	9.4%	18.6%	16.4%
Depreciation and amortization	**6,916**	5,252	5,069	4,271	4,283	4,105	3,213	3,246
Finance expense (recovery)	**1,513**	866	857	716	876	786	101	61
Earnings before income taxes	**686**	501	2,384	3,465	1,041	(438)	4,797	3,350
Income tax expense	**191**	(551)	498	881	394	849	1,379	1,013
Net earnings (loss)	**495**	1,052	1,886	2,584	647	(1,287)	3,418	2,337
Net earnings (loss) as a % of revenue	**0.9%**	1.8%	2.9%	4.3%	1.2%	-2.7%	7.8%	5.8%
Basic earnings (loss) per share	**0.047**	0.100	0.180	0.247	0.062	(0.132)	0.359	0.257
Diluted earnings (loss) per share	**0.047**	0.100	0.179	0.246	0.062	(0.132)	0.358	0.256
Adjusted net earnings(3)	**495**	1,052	1,886	2,584	647	1,544	3,418	2,337
Basic adjusted earnings (loss) per share(3)	**0.047**	0.100	0.180	0.247	0.062	0.159	0.359	0.257
Diluted adjusted earnings (loss) per share(3)	**0.047**	0.100	0.179	0.246	0.062	0.158	0.358	0.256
Net earnings (loss) without adoption of IFRS 16	**580**	1,052	1,886	2,584	647	(1,287)	3,418	2,337
Basic earnings (loss) per share without adoption of IFRS 16	**0.055**	0.100	0.180	0.247	0.062	(0.132)	0.359	0.257
Diluted earnings (loss) per share without adoption of IFRS 16	**0.055**	0.100	0.179	0.246	0.062	(0.132)	0.358	0.256
Total assets	**360,563**	322,229	316,968	317,051	312,193	295,213	199,452	195,957
Total long-term financial liabilities	**123,049**	87,831	84,436	86,675	72,189	57,594	9,205	8,407
Funds provided by (used in) operations	**9,670**	7,799	9,759	(4,629)	4,625	6,395	3,788	2,297
Long-term debt	**67,444**	70,203	67,045	70,505	56,356	42,780	-	-
Dividends declared per share	**0.300**	0.300	0.300	0.300	0.300	0.300	0.300	0.300

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

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

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

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

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

Quarterly Financial Information – Canadian Division

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

Quarterly Financial Information - Canadian Division	2019 (4)	2018				2017		
(thousands, except percentages and per share amounts)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Healthcare revenue	**32,435**	32,912	31,818	32,193	32,010	31,375	29,021	28,499
Hospitality revenue	**12,098**	12,155	15,054	12,465	11,282	11,406	14,577	11,995
Total revenue	**44,533**	45,067	46,872	44,658	43,292	42,781	43,598	40,494
Expenses included in EBITDA	**37,149**	40,229	41,758	38,758	37,774	35,820	35,487	33,837
EBITDA(1)	**7,384**	4,838	5,114	5,900	5,518	6,961	8,111	6,657
EBITDA as a % of revenue (EBITDA margin)	**16.6%**	10.7%	10.9%	13.2%	12.7%	16.3%	18.6%	16.4%
Adjusted EBITDA(2)	**7,384**	4,838	5,114	5,900	5,518	6,961	8,111	6,657
Adjusted EBITDA as a % of revenue (Adjusted EBITDA margin)	**16.6%**	10.7%	10.9%	13.2%	12.7%	16.3%	18.6%	16.4%
EBITDA without adoption of IFRS 16	**5,960**	4,838	5,114	5,900	5,518	6,961	8,111	6,657
EBITDA without adoption of IFRS 16 as % of revenue	**13.4%**	10.7%	10.9%	13.2%	12.7%	16.3%	18.6%	16.4%
Net earnings	**731**	32	200	1,421	1,048	1,594	3,418	2,337
Net earnings as a % of revenue	**1.6%**	0.1%	0.4%	3.2%	2.4%	3.7%	7.8%	5.8%
Basic earnings per share	**0.070**	0.003	0.019	0.136	0.100	0.164	0.359	0.257
Diluted earnings per share	**0.069**	0.003	0.019	0.135	0.100	0.163	0.358	0.256
Adjusted net earnings(3)	**731**	32	200	1,421	1,048	1,594	3,418	2,337
Basic adjusted earnings per share(3)	**0.070**	0.003	0.019	0.136	0.100	0.164	0.359	0.257
Diluted adjusted earnings per share(3)	**0.069**	0.003	0.019	0.135	0.100	0.163	0.358	0.256
Net earnings (loss) without adoption of IFRS 16	**807**	32	200	1,421	1,048	1,594	3,418	2,337
Basic earnings (loss) per share without adoption of IFRS 16	**0.077**	0.003	0.019	0.136	0.100	0.164	0.359	0.257
Diluted earnings (loss) per share without adoption of IFRS 16	**0.077**	0.003	0.019	0.135	0.100	0.163	0.358	0.256

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

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

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

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

Quarterly Financial Information – UK Division

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

Quarterly Financial Information - UK Division *(in reporting currency Canadian $)*	2019 [5]	2018				2017		
(thousands, except percentages and per share amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Healthcare revenue	**1,668**	1,557	1,560	1,675	1,591	561	-	-
Hospitality revenue	**11,582**	12,816	15,540	14,405	10,501	4,167	-	-
Total revenue [4]	**13,250**	14,373	17,100	16,080	12,092	4,728	-	-
Expenses included in EBITDA	**11,519**	12,592	13,904	13,528	11,410	7,236	-	-
EBITDA[1]	**1,731**	1,781	3,196	2,552	682	(2,508)	-	-
EBITDA as a % of revenue (EBITDA margin)	**13.1%**	12.4%	18.6%	15.9%	5.6%	-53.1%		
Adjusted EBITDA[2]	**1,731**	1,781	3,196	2,552	682	323	-	-
Adjusted EBITDA as a % of revenue (Adjusted EBITDA margin)	**13.0%**	12.4%	18.6%	15.9%	5.6%	6.8%		
EBITDA without adoption of IFRS 16	**843**	1,781	3,196	2,552	682	(2,508)	-	-
EBITDA without adoption of IFRS 16 as % of revenue	**6.4%**	12.4%	18.7%	15.9%	5.6%	-53.0%		
Net earnings (loss)	**(236)**	1,020	1,686	1,163	(401)	(2,881)	-	-
Net earnings (loss) as a % of revenue	**-1.8%**	7.1%	9.9%	7.2%	-3.3%	-60.9%		
Basic earnings (loss) per share	**(0.022)**	0.097	0.161	0.111	(0.038)	(0.296)	-	-
Diluted earnings (loss) per share	**(0.022)**	0.097	0.160	0.111	(0.038)	(0.295)	-	-
Adjusted net earnings (loss)[3]	**(236)**	1,020	1,686	1,163	(401)	(50)	-	-
Basic adjusted earnings (loss) per share[3]	**(0.022)**	0.097	0.161	0.111	(0.038)	(0.005)	-	-
Diluted adjusted earnings (loss) per share[3]	**(0.022)**	0.097	0.160	0.111	(0.038)	(0.005)	-	-
Net earnings (loss) without adoption of IFRS 16	**(227)**	1,020	1,686	1,163	(401)	(2,881)	-	-
Basic earnings (loss) per share without adoption of IFRS 16	**(0.022)**	0.097	0.161	0.111	(0.038)	(0.296)	-	-
Diluted earnings (loss) per share without adoption of IFRS 16	**(0.022)**	0.097	0.160	0.111	(0.038)	(0.295)	-	-

Quarterly Financial Information - UK Division *(in local currency Sterling £)*	2019 [5]	2018				2017		
(thousands, except percentages and per share amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Healthcare revenue	**963**	917	916	952	903	328	-	-
Hospitality revenue	**6,689**	7,550	9,077	8,201	5,963	2,433	-	-
Total revenue [4]	**7,652**	8,467	9,993	9,153	6,866	2,761	-	-
Expenses included in EBITDA	**6,654**	7,413	8,139	7,700	6,480	4,227	-	-
EBITDA[1]	**998**	1,054	1,854	1,453	386	(1,466)	-	-
EBITDA as a % of revenue (EBITDA margin)	**13.1%**	12.4%	18.6%	15.9%	5.6%	-53.1%		
Adjusted EBITDA[2]	**998**	1,054	1,854	1,453	386	188	-	-
Adjusted EBITDA as a % of revenue (Adjusted EBITDA margin)	**13.0%**	12.4%	18.6%	15.9%	5.6%	6.8%		
EBITDA without adoption of IFRS 16	**485**	1,054	1,854	1,453	386	(1,466)	-	-
EBITDA without adoption of IFRS 16 as % of revenue	**6.4%**	12.4%	18.6%	15.9%	5.6%	-53.1%		
Net earnings (loss)	**(138)**	600	972	662	(229)	(1,670)	-	-
Net earnings (loss) as a % of revenue	**-1.8%**	7.1%	9.7%	7.2%	-3.3%	-60.5%		
Basic earnings (loss) per share	**(0.013)**	0.057	0.093	0.063	(0.022)	(0.172)	-	-
Diluted earnings (loss) per share	**(0.013)**	0.057	0.092	0.063	(0.022)	(0.171)	-	-
Adjusted net earnings (loss)[3]	**(138)**	600	972	660	(229)	(16)	-	-
Basic adjusted earnings (loss) per share[3]	**(0.013)**	0.057	0.093	0.063	(0.022)	(0.002)	-	-
Diluted adjusted earnings (loss) per share[3]	**(0.013)**	0.057	0.092	0.063	(0.022)	(0.002)	-	-
Net earnings (loss) without adoption of IFRS 16	**(133)**	600	972	662	(229)	(1,670)	-	-
Basic earnings (loss) per share without adoption of IFRS 16	**(0.013)**	0.057	0.093	0.063	(0.022)	(0.172)	-	-
Diluted earnings (loss) per share without adoption of IFRS 16	**(0.013)**	0.057	0.092	0.063	(0.022)	(0.171)	-	-

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

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

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

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

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

Revenue, Earnings and EBITDA

For the three months ended March 31, 2019, K-Bro's revenue increased by 4.3% to $57.8 million from $55.4 million in the comparative period. This increase was due to the acquisition of Linitek, organic growth at existing customers, and new customers secured in existing markets.

For the three months ended March 31, 2019, approximately 59.1% of K-Bro's revenue was generated from healthcare institutions compared to 60.6% in Q1 2018. This decrease is primarily related to Linitek's volume being concentrated within the hospitality sector.

EBITDA in the first quarter of 2019 increased by $2.9 million to $9.1 million compared to $6.2 million in the same comparative period of 2018, and margin increased by 4.6% to 15.8%. The change in EBITDA and EBITDA margin, relates primarily to the adoption of IFRS 16 Leases, which increased EBITDA by $2.3 million and accounts for 4.0% of the increase in EBITDA margin for the three months ended March 31, 2019. The remainder of the increase in EBITDA is due to efficiencies gained as a result of the capital expenditures made in our new facilities, offset by higher commodity costs in British Columbia as a result of a temporary natural gas supply shortage, rising minimum wage rates in advance of future revenue price escalators, and tight labour markets in both British Columbia and Quebec. During the quarter, the Corporation incurred one-time costs of approximately $0.3 million. For the Canadian operations the EBITDA margin with and without the adoption of IFRS 16 was 16.6% and 13.4% respectively. After adjusting for the one-time costs the Canadian EBITDA margin would have been 14.1% without the adoption of IFRS 16.

Net earnings in the first quarter of 2019 decreased by $0.1 million to $0.5 million compared to $0.6 million in the same comparative period of 2018, and as a percentage of revenue decreased by 0.3% to 0.9%. The change in net earnings is primarily related to the flow through items in EBITDA discussed above, offset by the change in accounting policies with the adoption of IFRS 16 Leases, resulting in higher depreciation of property, plant and equipment and finance costs of $2.4 million, higher depreciation associated with new plant builds and the acquisition of Linitek, higher finance costs related with the revolving credit facility, and offset by a lower income tax expense.

Operating Expenses

Wages and benefits in the first quarter of 2019 increased by $0.1 million to $23.4 million compared to $23.3 million in the same comparative period of 2018, and as a percentage of revenue decreased by 1.7% to 40.5%. The decrease as a percentage of revenue is primarily related to diminishing one-time costs related to the Vancouver transition when compared to Q1 2018. The overall increase in wages and benefits is related to incremental labour required to process higher volumes, escalating minimum wage rates, and tight labour markets in British Columbia and Quebec.

Linen in the first quarter of 2019 remained constant at $6.4 million compared to the same comparative period of 2018, and as a percentage of revenue decreased by 0.4% to 11.2%. The decrease as a percentage of revenue is primarily related to higher proportion of hospitality revenue in the quarter that doesn't require linen replacement and higher setup costs for new healthcare customers incurred in the prior year.

Utilities in the first quarter of 2019 increased by $0.8 million to $4.3 million compared to $3.5 million in the same comparative period of 2018, and as a percentage of revenue increased by 1.1% to 7.5%. The increase as a percentage of revenue is primarily related to higher commodity costs in British Columbia as a result of a temporary natural gas supply shortage, incremental volume processed, offset by improved efficiencies in the new Vancouver facilities.

Delivery in the first quarter of 2019 decreased by $0.4 million to $7.0 million compared to $7.4 million in the same comparative period of 2018, and as a percentage of revenue decreased by 1.3% to 12.1%. The decrease as a percentage of revenue is primarily related to the adoption of IFRS 16 Leases, which accounts for 1.5% and a decrease to delivery costs of $0.9 million. This is offset by increased business activity, price increases from renewals of out-sourced freight contracts, and higher cost of diesel and external freight charges tied to diesel price.

Occupancy costs in the first quarter of 2019 decreased by $1.2 million to $1.1 million compared to $2.3 million in the same comparative period of 2018, and as a percentage of revenue decreased by 2.2% to 1.9%. The decrease as a percentage of revenue is primarily related to the adoption of IFRS 16 Leases, which accounts for 2.4% and a decrease to occupancy costs of $1.4 million. This is offset by costs associated with the acquisition of Linitek and higher rent costs at our new Vancouver facility.

Materials and supplies in the first quarter of 2019 decreased by $0.2 million to $1.8 million compared to $2.0 million in the same comparative period of 2018, and as a percentage of revenue decreased by 0.5% to 3.0%. The decrease as a percentage of revenue is primarily related to lower costs related to the transition of our Vancouver facilities and certain one-time recoverable costs.

Repairs and maintenance in the first quarter of 2019 increased by $0.3 million to $2.1 million compared to $1.8 million in the same comparative period of 2018, and as a percentage of revenue increased by 0.3% to 3.6%. The increase as a percentage of revenue is primarily related to the timing of scheduled maintenance activities.

Corporate costs in the first quarter of 2019 increased by $0.2 million to $2.6 million compared to $2.4 million in the same comparative period of 2018, and as a percentage of revenue increased by 0.1% to 4.5%. The increase as a percentage of revenue is primarily related to initiatives to support the Corporation's growth and business strategies across the plants.

Depreciation of property, plant and equipment and amortization of intangible assets represents the expense related to the appropriate matching of certain K-Bro long-term assets to the estimated useful life and period of economic benefit of those assets. The increase during the quarter is related to the completion of the new Toronto and Vancouver facilities and adoption of IFRS 16 Leases.

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

LIQUIDITY AND CAPITAL RESOURCES

In Q1 2019, cash generated by operating activities was $9.7 million, compared to $4.6 million during Q1 2018. The change in cash from operations is primarily due to the change in working capital items driven mainly from the timing of business activity, and change in accounting policies and the adoption of IFRS 16 Leases, where the principal elements of lease payments are now recorded as financing outflows as opposed to flowing through operating cash flows. Management believes the unutilized balance of $31.4 million with respect to its revolving credit facility is sufficient for the Corporation's operations in the foreseeable future. However, management intends to continually assess its opportunities to maintain a conservative amount of leverage and balance sheet flexibility in the short and long-term basis in order to ensure that sufficient capital is available for future growth needs.

During Q1 2019, cash used in financing activities was $7.6 million compared to cash generated by financing activities $10.4 million in Q1 2018. Financing activities in Q1 2019 consisted of net repayment of the revolving credit facility, offset by dividends paid to shareholders, and principal elements of lease payments.

During Q1 2019, cash used in investing activities was $2.4 million compared to $17.2 million in Q1 2018. Investing activities related primarily to the purchase of plant equipment.

Contractual Obligations

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

(thousands)	Payments due by Period					
		Total	< 1 Year	1 - 3 Years	4 - 5 Years	> 5 Years
Long-term debt	$	67,444	-	67,444	-	-
Lease liabilities	$	69,023	7,797	14,464	11,318	35,444
Utility commitments	$	9,282	6,215	3,067	-	-
Linen purchase obligations	$	6,575	6,575	-	-	-
Property, plant and equipment commitments	$	312	312	-	-	-

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

Financial Position

(thousands, except percentages)		Three months ended March 31, 2019		Year ended December 2018
Cash and cash equivalents	$	(2,548)	$	(2,827)
Long-term debt (excludes lease liabilities)		67,444		70,203
Shareholders' equity		194,719		198,660
Total shareholder's equity	$	259,615	$	266,036
Debt to total shareholder's equity (see *Terminology* for definition)		26.0%		26.4%

For the quarter ended March 31, 2019, the Corporation had a debt to total shareholder's equity of 26.0%, unused revolving credit facility of $31.4 million and has not incurred any events of default under the terms of its credit facility agreement.

As at March 31, 2019, the Corporation had net working capital of $24.8 million compared to its working capital position of $34.8 million at December 31, 2018. The decrease in working capital is primarily attributable to the adoption of IFRS 16 Leases, timing differences related to the cash settlement of new plant equipment, timing of income tax recovery, deposits related to the acquisition of equipment related across the plants, and timing of cash receipts from customers.

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

DIVIDENDS

Fiscal Period	Payment Date	# of Shares outstanding	2019 Amount per Share	2019 Total Amount (1)	2018 Amount per Share	2018 Total Amount (2)
January	February 15	10,559,936	$ 0.10000	$ 1,056	$ 0.10000	$ 1,051
February	March 15	10,559,936	0.10000	1,056	0.10000	1,051
March	April 15	10,559,936	0.10000	1,056	0.10000	1,051
Q1			$ 0.30000	$ 3,168	$ 0.30000	$ 3,153
YTD			$ 0.30000	$ 3,168	$ 0.30000	$ 3,153

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

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

For the three months ended March 31, 2019, the Corporation declared a $0.300 per share dividend compared to $0.533 per Share of Distributable Cash Flow (see *Terminology*). The payout ratio for the three months ended March 31, 2019 was 56.3%.

The Corporation's policy is to pay dividends to Shareholders from its available distributable cash flow while considering requirements for capital expenditures, working capital, growth capital and other reserves considered advisable by the Directors of the Corporation. All such dividends are discretionary. Dividends are declared payable each month in equal amounts to Shareholders on the last business day of each month and are paid by the 15th of the following month.

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

DISTRIBUTABLE CASH FLOW (see *Terminology*)

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

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

(thousands, except percentages and per share amounts)	2019 [4]	2018				2017		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Cash provided by (used in) operating activities	$ 9,670	$ 7,799	$ 9,759	$ (4,629)	$ 4,625	$ 6,395	$ 3,788	$ 2,297
Deduct (add):								
Net changes in non-cash working capital items[1]	1,484	1,082	1,176	(12,167)	(1,471)	2,942	(3,917)	(4,161)
Share-based compensation expense	540	380	403	625	409	333	276	494
Maintenance capital expenditures[2]	374	526	908	430	488	349	192	427
Principal elements of lease payments[5]	1,648	-	-	-	-	-	-	-
Distributable cash flow [5]	$ 5,624	$ 5,811	$ 7,272	$ 6,483	$ 5,199	$ 2,771	$ 7,237	$ 5,537
Dividends declared	3,168	3,168	3,168	3,163	3,153	2,968	2,875	2,871
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300
Payout ratio[3]	56.3%	54.5%	43.6%	48.8%	60.6%	107.1%	39.7%	51.8%
Weighted average shares outstanding during the period, basic	10,497	10,479	10,470	10,462	10,454	9,718	9,511	9,104
Weighted average shares outstanding during the period, diluted	10,546	10,525	10,540	10,509	10,491	9,755	9,548	9,133
Trailing-twelve months ("TTM")								
Distributable cash flow	25,190	24,765	21,725	21,690	20,744	20,047	23,051	21,667
Dividends	12,667	12,651	12,452	12,159	11,867	11,121	10,560	10,092
Payout ratio[3]	50.3%	51.1%	57.3%	56.1%	57.2%	55.5%	45.8%	46.6%

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

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

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

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

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

OUTSTANDING SHARES

As at March 31, and May 9, 2019, the Corporation had 10,559,936 common shares outstanding. Basic and diluted weighted average number of common shares outstanding for the three months ended March 31, 2019 were 10,496,590 and 10,545,970, respectively (10,453,622 and 10,491,424, respectively, for the comparative 2018 interim periods).

In accordance with the LTI plan and in conjunction with the performance of the Corporation in the 2018 fiscal year, on April 23, 2019 the Compensation, Nominating and Corporate Governance Committee of the Board of Directors approved LTI compensation of $1.7 million (2018 – $1.7 million) to be paid as shares issued from treasury. As at March 31, 2019, the value of the shares held in trust by the LTI trustee was $2.4 million (December 31, 2018 – $2.1 million) which was comprised of 63,346 in unvested common shares (December 31, 2018 – 63,346) with a nil aggregate cost (December 31, 2018 – $nil).

As at May 9, 2019 there were 10,559,936 common shares issued and outstanding including 63,346 shares issued but held as unvested treasury shares.

RELATED PARTY TRANSACTIONS

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by Mr. Matthew Hills, a director of the Corporation. For the three month period ended March 31, 2019, the Corporation incurred fees totaling $34,500 compared to $34,500 for the same period of fiscal 2018.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements, in conformity with IFRS, requires K-Bro to make estimates and assumptions that affect the reported amounts 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. Management regularly evaluates these estimates and assumptions which are based on past experience and other factors that are deemed reasonable under the circumstances. This involves varying degrees of judgment and uncertainty and, therefore, amounts currently reported in the financial statements could differ in the future. Further to those areas discussed in the annual Consolidated Financial Statement for the year ended December 31, 2018 and the annual MD&A, determining the lease term and incremental borrowing rates under IFRS 16, requires critical judgments.

TERMINOLOGY

EBITDA

K-Bro reports EBITDA (Earnings before interest, taxes, depreciation and amortization) as a key measure used by management to evaluate performance. EBITDA and EBITDA without the adoption of IFRS 16 is utilized to measure compliance with debt covenants and to make decisions related to dividends to Shareholders. We believe EBITDA assists investors to assess our performance on a consistent basis as it is an indication of our capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible and intangible capital assets, which vary according to their vintage, technological currency and management's estimate of their useful life. Accordingly, EBITDA comprises revenues less operating costs before financing costs, capital asset and intangible asset amortization, and income taxes.

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

	Three Months Ended March 31,	
(thousands)	**2019**(1)	2018
Net earnings	**$ 495**	$ 647
Add:		
Income tax expense	**191**	394
Finance expense	**1,513**	876
Depreciation of property, plant and equipment	**6,135**	3,451
Amortization of intangible assets	**781**	832
EBITDA	**$ 9,115**	$ 6,200

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

Non-GAAP Measures

Adjusted EBITDA

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

Adjusted Net Earnings and Adjusted Net Earnings per Share

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

Distributable Cash Flow

Distributable cash flow is a measure used by management to evaluate its performance. While the closest IFRS measure is cash provided by operating activities, distributable cash flow is considered

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

Payout Ratio

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

Debt to Total Shareholder’s Equity

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

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

Off Balance Sheet Arrangements

As at March 31, 2019, the Corporation has not entered into any off balance sheet arrangements.

ADOPTION OF NEW ACCOUNTING STANDARDS

The Corporation has prepared its March 31, 2019 interim Condensed Consolidated Financial Statements in accordance with IAS 34, Interim Financial Reporting, as issued by the IASB and incorporated the same accounting principles and methods used in the preparation of the audited annual Consolidated Financial Statements. See Note 2 of the Corporation's audited annual Consolidated Financial Statements for more information regarding the significant accounting principles used to prepare the interim Consolidated Financial Statements.

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

a) Adjustments recognised on adoption of IFRS 16

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

	2019
Operating lease commitments disclosed as at December 31, 2018	$ 61,188
Discounted using the lessee's incremental borrowing rate of at the date of initial application	$ 51,861
Less: short-term leases recognised on a straight-line basis as expense	(57)
Less: low-value leases recognised on a straight-line basis as expense	(111)
Lease liability recognised as at January 1, 2019	$ 51,693

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

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

	March 31, 2019	**January 1, 2019**
Buildings	$ 37,258	$38,141
Vehicles	7,356	8,129
Total right-of-use assets	$ 44,614	$46,270

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

- right-of-use assets – increased by $46,270

- deferred tax assets – increased by $668
- lease liabilities – increased by $48,668

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

(i) Impact on segment disclosures and earnings per share

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

	Segment EBITDA	Segment assets	Segment liabilities
Canadian Division	$ 1,424	$ 31,655	$ 33,655
UK Division	888	12,959	12,772
	$ 2,312	**$ 44,614**	**$ 46,427**

Basic and diluted earnings per share for the three months to March 31, 2019 decreased by $0.01 as a result of the adoption of IFRS 16.

(ii) Practical expedients applied

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

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

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

b) The Corporation’s leasing activities and how these are accounted for

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

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

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

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

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

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

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

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

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

(i) Variable lease payments

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

(ii) Extension and termination options

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

Critical judgements in determining the lease term

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

CRITICAL RISKS AND UNCERTAINTIES

As at March 31, 2019, there are no material changes in the Corporation's risks or risk management activities since December 31, 2018. The Corporation's results of operations, business prospects, financial condition, cash dividends to Shareholders and the trading price of the Corporation's Shares are subject to a number of risks. These risk factors include: dependence on long-term contracts and the associated renewal risk thereof; the effects of market volatility and uncertainty; potential future tax changes; the competitive environment; our ability to acquire and successfully integrate and operate additional businesses; utility costs; the labour markets; the fact that our credit facility imposes numerous covenants and encumbers assets; and, environmental matters.

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

CONTROLS AND PROCEDURES

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

Disclosure Controls and Procedures

The Corporation has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements of K-Bro was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee.

Internal Controls over Financial Reporting

There were no changes in internal controls over financial reporting ("ICFR") during the three month period ended March 31, 2019 that materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

The Corporation's CEO and CFO have determined that there is not a material weakness in the design of disclosure controls and procedures and internal controls over financial reporting which existed as at March 31, 2019.

A discussion of the internal controls over financial reporting can be found under the MD&A that accompany the audited consolidated financial statements for the year ended December 31, 2018.

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

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

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

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