MANAGEMENT'S DISCUSSION & ANALYSIS

www.k-brolinen.com | inquiries@k-brolinen.com

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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 audited consolidated financial statements of K-Bro Linen Inc. (“the Corporation”) for the years ended December 31, 2020 and 2019 (the “2020 Audited Financial Statements”), as well as the unaudited interim condensed consolidated financial statements for the periods ended March 31, 2020, June 30, 2020 and September 30, 2020. The Corporation and its wholly-owned subsidiaries, including K-Bro Linen Systems Inc. and Fishers Topco Ltd., are collectively referred to as “K-Bro” in this MD&A.

Management is responsible for the information contained in this MD&A and its consistency with information presented to the Audit Committee and Board of Directors. All information in this document has been reviewed and approved by the Audit Committee and Board of Directors. This review was performed by management with information available as of March 18, 2021.

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

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

These statements are not guarantees of future performance and are based on management’s estimates and assumptions that are subject to risks and uncertainties, which could cause K-Bro’s actual performance and financial results in future periods to differ materially from the forward-looking information contained in this MD&A. These risks and uncertainties include, among other things: (i) risks associated with acquisitions, including the possibility of undisclosed material liabilities; (ii) K-Bro's competitive environment; (iii) utility costs, minimum wage legislation and labour costs; (iv) K-Bro's dependence on long-term contracts with the associated renewal risk; (v) increased capital expenditure requirements; (vi) reliance on key personnel; (vii) changing trends in government outsourcing; (viii) changes or proposed changes to minimum wage laws in Ontario, British Columbia, Alberta, Quebec, Saskatchewan and the United Kingdom (the “UK”); (ix) the availability of future financing; (x) textile demand; (xi) the adverse impact of the COVID-19 pandemic on the Corporation, which has been significant to date and which we believe will continue to be significant for the short to medium term; and (xii) foreign currency risk. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information include: (i) volumes and pricing assumptions; (ii) expected impact of labour cost initiatives; (iii) frequency of one-time costs impacting quarterly and annual financial results; (iv) foreign exchange rates; (v) the level of capital expenditures and (vi) the expected impact of the COVID-19 pandemic on the Corporation. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements regarding forward-looking information included in this MD&A may be considered “financial outlook” for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A. Forward looking information included in this MD&A includes the expected annual healthcare revenues to be generated from the Corporation’s contracts with new customers, calculation of costs, including one-time costs impacting the quarterly financial results, anticipated future capital spending and statements with respect to future expectations on margins and volume growth, as well as statements related to the impact of the COVID-19 pandemic on the Corporation.

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

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

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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 UK, providing a range of linen services to healthcare institutions, hotels and other commercial accounts that include the processing, management and distribution of general linen and operating room linen.

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

The Corporation's operations in the UK include Fishers Topco Ltd. ("Fishers"), which was acquired by K-Bro on November 27, 2017. Fishers was established in 1900 and is a leading operator of laundry and linen processing facilities in Scotland, providing linen rental, workwear hire and cleanroom garment services to the hospitality, healthcare, manufacturing and pharmaceutical sectors. The Corporation operates six UK sites located in Cupar, Perth, Newcastle, Livingston and Coatbridge. The Corporation has also temporarily shutdown its facility in Perth as a result of the COVID-19 pandemic.

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 has historically exhibited the following characteristics and trends:

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

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

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

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) have historically generated between 0.5 million and 3 million pounds of linen per year. Most healthcare customers have historically generated between 0.5 million pounds of linen per year for a hospital and up to approximately 40 million pounds of linen per year for a Canadian healthcare region. We note that the ongoing COVID-19 pandemic has introduced atypical instability in both the healthcare and the hospitality sectors which is inconsistent with such historical linen generation trends.

As COVID-19 continues to spread throughout Canada and the UK, at least in the short-term to medium-term, we expect significant reductions in linen volume generation by our customers in the hospitality segment, primarily as a result of decreased willingness and ability of the general population to travel to and within Canada and the UK during the course of the outbreak. In addition, as hospitals prepared for potential surges in COVID-19-related occupancy during Q1 and early Q2 of 2020, we saw a decline in healthcare volumes as a result of cancelled elective surgeries and decreased occupancy rates. As 2020 progressed we have seen healthcare levels increase above historical levels due to change in usage practices. We cannot predict with certainty how the progression of COVID-19 will impact overall volumes in 2021. For a summary of the impact on revenues for 2020 refer to the COVID-19 section which summarizes impact on a monthly and quarterly basis.

STRATEGY

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

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

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

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

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

FOURTH QUARTER OVERVIEW

Net earnings for the fourth quarter of 2020 was $2.1 million or $0.20 per share (basic). Cash generated by operating activities for the fourth quarter of 2020 was $25.0 million and distributable cash flow was $6.9 million. As a result of the COVID-19 pandemic, consolidated hospitality revenue for the three months ended December 31, 2020 decreased by 69.4% over the comparable 2020 period. This is partially offset by an increase of 18.3% in consolidated healthcare revenue for an overall decrease in consolidated revenue of 19.9%.

EBITDA (see “Terminology”) increased in the fourth quarter to $11.7 million from $11.1 million in 2019, which is a increase of 5.6%. On a consolidated basis, the Corporation’s EBITDA margin increased from 17.7% in 2019 to 23.3% in 2020. For the Canadian division, EBITDA margin increased to 26.8% from 19.0% for the comparative quarter of 2020. For the UK division, EBITDA margin decreased to -3.9% from 14.0% for the comparative quarter of 2020.

On a consolidated basis, adjusted EBITDA and margin without the adoption of IFRS 16 for the fourth quarter of 2020 was $9.6 million and 19.0%, compared to $9.1 million and 14.5% respectively in the same comparative period of 2019. The changes in adjusted EBITDA and adjusted EBITDA margin relate primarily to effects of the COVID-19 pandemic, which include government assistance received during the quarter.

For the Canadian division, the Corporation for the months of April, May, and July through December was eligible for the Canadian Emergency Wage Subsidy (“CEWS”) that was announced by the Federal Government in response to the COVID-19 pandemic on March 27, 2020. The CEWS program, which subsidizes a percentage of employee wages (subject to certain caps) is designed for eligible Canadian employers whose businesses have been impacted by the COVID-19 pandemic and is intended to help employers rehire previously laid off workers, retain existing employees, and assist Canadian businesses through the COVID-19 pandemic. The CEWS program allowed the Corporation to preserve a significant number of jobs. Without the benefit of this wage subsidy, the Canadian operations would have taken available alternative actions. During the fourth quarter of 2020, the Corporation has recognized $0.6 million of wage subsidy which has been netted against the respective source of the expense.

For the UK division, the Corporation was eligible for the Coronavirus Job Retention Scheme (“CJRS”) which was introduced by the UK government on March 20, 2020 to pay approximately 80% of salaries for employees (subject to certain caps) who are furloughed. For the fourth quarter, the Corporation has recognized £0.7 million ($1.3 million) which has been netted against the respective source of the expense. During 2020, the terms of the CJRS required companies share in the cost of the program, and as a result the impact to the fourth quarter EBITDA was a cost of £69k ($119k) which represents the UK division’s contribution for hours and certain benefits. For greater clarity, until July 2020 the UK division received an equivalent amount from the government that is then paid to furloughed employees netting to no impact on EBITDA, however starting in August 2020 the UK division was required to make contributions for hours and certain benefits.

SELECTED ANNUAL FINANCIAL INFORMATION

(In reporting currency $ Canadian)

	Years Ended December 31,								
(thousands, except percentages and per share amounts)	Canadian Division 2020	UK Division 2020	**2020**	Canadian Division 2019	UK Division 2019	2019 [4]	Canadian Division 2018	UK Division 2018	2018
Revenue	$ 166,682	$ 29,909	**$ 196,591**	$ 186,624	$ 65,786	$ 252,410	$ 179,889	$ 59,645	$ 239,534
EBITDA[1]	38,365	(121)	**38,244**	35,843	11,730	47,573	21,370	8,211	29,581
Adjusted EBITDA without adoption of IFRS 16[2]	38,018	(2,986)	**35,032**	30,052	8,641	38,693	21,370	8,211	29,581
Net earnings (loss)	10,892	(7,110)	**3,782**	7,787	3,119	10,906	2,701	3,468	6,169
Adjusted net earnings (loss) without adoption of IFRS 16[3]	15,274	(7,025)	**8,249**	7,997	3,342	11,339	2,701	3,468	6,169
Net earnings (loss) per share:									
Basic	$ 1.032	$ (0.673)	**$ 0.358**	$ 0.741	$ 0.297	$ 1.038	$ 0.258	$ 0.331	$ 0.589
Diluted	$ 1.025	$ (0.669)	**$ 0.356**	$ 0.737	$ 0.295	$ 1.032	$ 0.257	$ 0.330	$ 0.588
Adjusted net earnings (loss) without adoption of IFRS 16 per share:									
Basic	$ 1.447	$ (0.665)	**$ 0.781**	$ 0.761	$ 0.318	$ 1.079	$ 0.258	$ 0.331	$ 0.589
Diluted	$ 1.437	$ (0.661)	**$ 0.776**	$ 0.756	$ 0.316	$ 1.072	$ 0.257	$ 0.330	$ 0.588
Total assets			**$ 323,811**			$ 352,059			$ 322,229
Long-term debt (excludes lease liabilities)			**40,657**			$ 62,494			70,203
Weighted average number of shares outstanding:									
Basic			**10,557,147**			10,508,080			10,466,458
Diluted			**10,629,237**			10,571,347			10,500,014

(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 without adoption of IFRS 16 (as defined below) is defined as EBITDA (defined above) with the exclusion of IFRS 16, and 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 without adoption of IFRS 16 is defined as net earnings with the exclusion of IFRS 16, and 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 IFRS 16. To enable the comparability of previous periods, the Corporation has provided the 2020 and 2019 figures for both EBITDA and net earnings without adoption of IFRS 16 as separate line items.

SUMMARY OF 2020 RESULTS, KEY EVENTS AND OUTLOOK

Financial Growth

Net earnings were $3.8 million or $0.36 per Common Share (basic). Cash flow from operating activities was $42.4 million and distributable cash flow was $31.3 million. Revenue decreased in fiscal 2020 to $196.6 million or by 22.1% compared to 2019.

EBITDA (see "Terminology") decreased in 2020 to $38.2 million or by 19.6% compared to $47.6 million in 2019. On a consolidated basis, EBITDA margin increased from 18.8% in 2019 to 19.5% in 2020. For the Canadian division, the EBITDA margin increased to 23.0% in 2020 from 19.2% in 2019. For the UK division, the EBITDA margin decreased to -0.4% in 2020 from 17.8% in 2019.

For the Canadian division, the Corporation for the months of April, May, and July through December was eligible for the Canadian Emergency Wage Subsidy ("CEWS") that was announced by the Federal Government in response to the COVID-19 pandemic on March 27, 2020. The CEWS program, which subsidizes a percentage of employee wages (subject to certain caps) is designed for eligible Canadian employers whose businesses have been impacted by the COVID-19 pandemic and is intended to help employers rehire previously laid off workers, retain existing employees, and assist Canadian businesses through the COVID-19 pandemic. The CEWS program allowed the Corporation to preserve a significant number of jobs. Without the benefit of this wage subsidy, the Canadian operations would have taken available alternative actions. During 2020, the Corporation has recognized $8.3 million of the wage subsidy which has been netted against the respective source of the expense.

For the UK division, the Corporation was eligible for the Coronavirus Job Retention Scheme ("CJRS") which was introduced by the UK government on March 20, 2020 to pay approximately 80% of salaries for

employees (subject to certain caps) who are furloughed. Year to date, the Corporation has recognized £3.4 million ($5.9 million) which has been netted against the respective source of the expense. During 2020, the terms of the CJRS required companies share in the cost of the program, and as a result the impact to EBITDA was a cost of £95k ($164k) which represents the UK division's contribution for hours and certain benefits. For greater clarity, until July 2020, the UK division received an equivalent amount from the government that is then paid to furloughed employees netting to no impact on EBITDA, however starting in August 2020 the UK division was required to make contributions for hours and certain benefits.

Near-Term and Long-Term Growth and Margin Impact

In 2019, management completed its strategy in its Toronto and Vancouver markets that it believes will position K-Bro for long-term growth in its healthcare and hospitality businesses. The strategy included capital investments to build large, efficient, state-of-the-art facilities with meaningful additional capacity in Toronto and Vancouver. In addition, K-Bro has made investments to upgrade one of its existing Vancouver plants to create a more efficient facility with meaningful additional capacity.

The construction and/or upgrade of three of our large facilities enables us to bid on a significant amount of additional business, but created margin pressure through 2017, 2018 and Q1 2019 as K-Bro incurred significant one-time and transition costs associated with these large investments. Management believes that the one-time and transition costs incurred will position K-Bro to achieve more long-term growth and a lower cost structure in the future and that K-Bro will ultimately return to normalized margins upon resolution of the COVID-19 pandemic, as more specifically discussed below.

As disclosed above, the continued spread of COVID-19 throughout Canada and the UK, at least in the short-term to medium-term, is expected to have a significant negative impact on the amount of hospitality volume processed by the Corporation. To date the Corporation has seen an increased demand on the healthcare portion of the business as a result of practice changes within the hospitals. Dependent on the duration of the pandemic, management believes that the Corporation's capital investments in Vancouver and Toronto could position the Corporation to profitably grow the business, for example as hotel occupancy rates rebound upon resolution of the public health crisis.

Key events in our markets are summarized below.

Alberta Contract Award

On March 1, 2021, the Corporation was awarded a one-year extension to provide laundry and linen services to Alberta Health Services Calgary. The contract extends the existing relationship between the Corporation and Alberta Health Services Calgary.

In October 2020, AHS issued a request for proposal for linen services (the "AHS RFP"). The AHS RFP encompassed the linen services provided by the Corporation to AHS under the AHS Calgary Contract, as well as the linen services provided by the Corporation to AHS in Edmonton, for which volumes are under contract as part of two existing agreements until 2022 and 2023 respectively. The AHS RFP also included new volume for rural Alberta. The AHS RFP is significant opportunity for the Corporation, but no assurances can be provided that the Corporation will be successful in pursuing such opportunity. See "Risk Factors – Increased Competition" in the Corporation's Annual Information Form.

British Columbia Contract Award

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

Revolving Credit Facility

During the second quarter of 2020, the Corporation completed an amendment to its existing revolving credit facility which made changes to certain terms and conditions within the agreement in consideration of the ongoing COVID-19 pandemic and the impact to the Corporation's operations. Key changes included:

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

UK Acquisition

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

Capital Investment Plan

For fiscal 2021, the Corporation's planned capital spending is expected to be approximately $5.0 million on a consolidated basis. This guidance includes both strategic and maintenance capital requirements to support existing base business in both Canada and the UK and does not take into account amounts accrued in 2020 that will be paid in 2021. We will continue to assess capital needs within our facilities and prioritize projects that have shorter term paybacks as well as those that are required to maintain efficient and reliable operations.

Loss of Whitbread Group Contract

Subsequent to the 2019 fiscal year, the Corporation was unsuccessful in renewing its UK contract with the Whitbread Group. The associated volume was phased out of the relevant plant over the first two quarters of 2020. For the year ended December 31, 2019, this contract accounted for approximately 14% of Fishers' overall revenue.

COVID-19 Pandemic

The ongoing COVID-19 pandemic has caused world governments to institute travel restrictions, impacting travel both in and out of Canada and the UK. This has had and is expected to continue to have a

significant adverse impact on the Corporation's hospitality business, the duration of which we are unable to predict with any degree of accuracy.

Since mid-March 2020, we have seen significantly reduced hotel occupancy rates compared to historical levels. Demand for both business and leisure airline travel has declined significantly on a global basis, and airlines are responding by cancelling international and domestic flights. Accordingly, hospitality volumes in all of our Canadian and UK markets have slowed to historically low levels. While we saw improvement in the Corporation's hospitality business in Q3 resulting from increased domestic tourism, volumes in Q4 started to quickly taper, primarily a result of the second wave of COVID-19 and reinstatement of previous restrictions.

In addition to this, in late Q1 and into Q2 we saw decreases in our healthcare business as a result of hospitals and health authorities taking measures to prepare for anticipated surges in COVID-19-related occupancy (i.e., cancellation of elective surgeries). As Q2 progressed, we saw a return to more normal healthcare levels however we cannot predict with certainty how the progression of COVID-19 will impact overall volumes. The following table depicts the impact on the Corporation's revenue for 2020.

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

Although the Corporation has developed and implemented measures to mitigate the effects of the COVID-19 pandemic which include, temporary restructuring through consolidating operations, reducing headcount, reducing certain capital expenditures and accessing available government assistance programs, earnings will continue to be particularly affected if we continue to experience reductions in travel and reduced hospitality and healthcare occupancy rates. The extent of such negative effects on our business and our financial and operational performance will depend on future developments, including the duration, spread and severity of outbreaks, the availability and effectiveness of the vaccine, the duration and geographic scope of related travel advisories and restrictions and the extent of the impact of the COVID-19 pandemic on overall demand for personal and business travel, all of which are highly uncertain and cannot be predicted with any degree of accuracy. As hotels are continuing to experience significantly reduced occupancy rates, our 2021 consolidated results of operations will continue to be significantly impacted. Additionally, our suppliers or other third parties we rely upon may experience delays or shortages, which could have an adverse effect on our business prospects and results of operations.

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

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

Impairment of Assets

a) Impairment testing at March 31, 2020

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

For the five CGUs who rely primarily on hospitality revenues an impairment test was completed using a probability-weighted discounted cash flow approach whereby the recoverable amount was based on the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU).

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

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

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

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

CGU	**Allocated to Goodwill**	**Allocated to PP&E**	**Total impairment recorded**	**Recoverable Amount**
Montreal	$ 823	$ -	**$ 823**	$ 2,485
Quebec	654	2,339	**2,993**	(1,917)
Victoria	1,700	-	**1,700**	5,433
	$ 3,177	$ 2,339	**$ 5,516**	$ 6,001

b) Impairment testing at December 31, 2020

The Corporation performed its annual assessment for goodwill impairment for the Canadian division and for the UK division as at December 31, 2020 in accordance with its policy described in Note 2(k).

At December 31, 2020, the recoverable amount for the CGUs was determined using either a probability-weighted discounted cash flow approach (hospitality CGUs) or an earnings multiple approach (healthcare CGUs). The Corporation references Board approved budgets and cash flow forecasts, trailing twelve-month EBITDA, implied multiples and appropriate discount rates in the valuation calculations.

For the healthcare CGUs whereby the earnings multiple approach is used the implied multiple is calculated by utilizing the average multiples of comparable public companies. For the healthcare CGU's, the Corporation used implied average forward multiples that ranged from 12.7 to 12.9 to calculate the recoverable amounts. For these CGUs, based on testing performed at December 31, 2020 no impairment was determined to exist.

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

For the December 31, 2020 impairment test, management's probability weighted approach was evaluated based on an equally weighted probability of a continued two year downturn in sales to the worst case of a three year downturn in sales. The scenarios estimated a decline of 45% for 2021, 30% for 2022, and 5% for 2023 with sales returning to normalized levels thereafter with sales growth estimates used 2%. This contrasts to the March 31, 2020 impairment test which contemplated a decline in 2020 and 2021 revenues only. As at December 31, 2020, for the goodwill associated with the remaining hospitality CGUs (the UK Division, Vancouver 2 and Victoria) the recoverable amounts was estimated to be £41,070, $21,300 and $6,484 respectively which exceeded the carrying amounts of the CGUs. No further impairment was therefore required for any of these CGUs.

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

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

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

		Sensitivity	
	Recoverable Amount	Long-term Growth Rate decrease of 1%	Pre-tax discount rate increase of 1%
UK Division	**£41,070**	-£3,869	-£4,652
Vancouver 2 Division	**$21,300**	-$2,295	-$2,785
Victoria	**$6,484**	-$695	-$845

The Corporation will continue to carefully monitor the situation as it pertains to the COVID-19 pandemic and further consider if there are new, or additional indicators, that exist during fiscal 2021.

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

OUTLOOK

While the COVID-19 pandemic will have a continued significant negative impact on our hospitality revenue, management believes the prospects for the Corporation's healthcare business remains strong in the medium-to-long-term. By providing integral laundry and linen processing services to the hospitality and healthcare sectors, the Corporation has been designated an "essential" service in the jurisdictions in which it operates, which has allowed the Corporation's facilities to remain open and continue "normal" operations. This has mitigated some of the more dramatic financial and operational impacts experienced by many other businesses in other industries. In addition, management believes that the financial flexibility provided by our strong balance sheet will enable us to operate without disruption to our business model while maintaining our ability to service the healthcare and hospitality sectors in our Canadian and UK markets. For further information about the impact of the COVID-19 pandemic on our business, see the "Summary of Interim Results, and Key Events".

RESULTS OF OPERATIONS

KEY PERFORMANCE DRIVERS

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

Three Months Ended December 31,

(thousands, except percentages and per share amounts) Category	Indicator	Canadian Division 2020	UK Division 2020	2020[4]	Canadian Division 2019	UK Division 2019	2019[5]
Growth	EBITDA[1]	36.8%	-109.5%	**5.6%**	80.6%	32.8%	67.7%
	Adjusted EBITDA without adoption of IFRS 16[2]	43.1%	-145.9%	**5.1%**	50.5%	2.9%	37.7%
	Revenue	-3.1%	-65.8%	**-19.9%**	2.1%	17.5%	5.8%
	Distributable cash flow[4]			**-2.2%**			21.2%
Profitability	EBITDA[1]	$ 11,951	$ (224)	**$ 11,727**	$ 8,737	$ 2,365	$ 11,102
	EBITDA margin	26.8%	-3.9%	**23.3%**	19.0%	14.0%	17.7%
	Adjusted EBITDA without adoption of IFRS 16[2]	$ 10,421	$ (841)	**$ 9,580**	$ 7,283	$ 1,833	$ 9,116
	Adjusted EBITDA margin without adoption of IFRS 16	23.4%	-14.5%	**19.0%**	15.8%	10.9%	14.5%
	Net earnings (loss)	$ 4,500	$ (2,365)	**$ 2,135**	$ 1,760	$ 435	$ 2,195
	Adjusted net earnings (loss) without adoption of IFRS 16[3]	$ 4,507	$ (2,078)	**$ 2,429**	$ 1,835	$ 573	$ 2,408
Stability	Debt to total capital			**17.9%**			24.7%
	Unutilized line of credit			**$ 58,693**			$ 36,356
	Cash on hand			**$ 2,416**			$ 5,301
	Payout ratio			**46.5%**			45.2%
	Dividends declared per share			**$ 0.300**			$ 0.300
Cost containment	Wages and benefits	32.5%	41.7%	**33.5%**	40.5%	35.8%	39.3%
	Utilities	5.2%	13.7%	**6.2%**	5.4%	8.9%	6.3%
	Expenses included in EBITDA	73.2%	103.9%	**76.7%**	81.0%	86.0%	82.3%

Years Ended December 31,

(thousands, except percentages and per share amounts) Category	Indicator	Canadian Division 2020	UK Division 2020	2020[4]	Canadian Division 2019	UK Division 2019	2019[5]
Growth	EBITDA[1]	7.0%	-101.0%	**-19.6%**	67.7%	42.9%	60.8%
	Adjusted EBITDA without adoption of IFRS 16[2]	26.5%	-134.6%	**-9.5%**	40.6%	5.2%	30.8%
	Revenue	-10.7%	-54.5%	**-22.1%**	3.7%	10.3%	5.4%
	Distributable cash flow[4]			**5.6%**			19.6%
Profitability	EBITDA[1]	$ 38,365	$ (121)	**$ 38,244**	$ 35,843	$ 11,730	$ 47,573
	EBITDA margin	23.0%	-0.4%	**19.5%**	19.2%	17.8%	18.8%
	Adjusted EBITDA without adoption of IFRS 16[2]	$ 38,018	$ (2,986)	**$ 35,032**	$ 30,052	$ 8,641	$ 38,693
	Adjusted EBITDA margin without adoption of IFRS 16	22.8%	-10.0%	**17.8%**	16.1%	13.1%	15.3%
	Net earnings (loss)	$ 10,892	$ (7,110)	**$ 3,782**	$ 7,787	$ 3,119	$ 10,906
	Adjusted net earnings (loss) without adoption of IFRS 16[3]	$ 15,274	$ (7,025)	**$ 8,249**	$ 7,997	$ 3,342	$ 11,339
Stability	Debt to total capital			**17.9%**			24.7%
	Unutilized line of credit			**$ 58,693**			$ 36,356
	Cash on hand			**$ 2,416**			$ 5,301
	Payout ratio			**40.9%**			42.9%
	Dividends declared per share			**$ 1.200**			$ 1.200
Cost containment	Wages and benefits	32.9%	42.6%	**34.4%**	40.9%	35.4%	39.4%
	Utilities	5.3%	9.6%	**5.9%**	5.7%	8.9%	6.5%
	Expenses included in EBITDA	77.0%	100.4%	**80.5%**	80.8%	82.2%	81.2%

(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 without adoption of IFRS 16 is defined as EBITDA (defined above) with the exclusion of IFRS 16, and 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 without adoption of IFRS 16 is defined as net earnings with the exclusion of IFRS 16, and 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, 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.

(5) Effective January 1, 2019, the Corporation has adopted IFRS 16 using the modified retrospective method but has not restated comparatives for the prior periods, as permitted under the specific transitional provisions of IFRS 16. To enable the comparability of previous periods, the Corporation has provided the 2020 and 2019 figures for both EBITDA and net earnings without adoption of IFRS 16 as separate line items.

Quarterly Financial Information - Consolidated

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

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

Quarterly Financial Information - Consolidated	2020 (5)				2019 (4)			
(thousands, except percentages and per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	41,981	39,071	35,103	35,048	35,482	34,710	34,729	34,103
Hospitality revenue	8,376	12,368	2,417	22,227	27,410	33,132	29,164	23,680
Total revenue	50,357	51,439	37,520	57,275	62,892	67,842	63,893	57,783
Expenses included in EBITDA	38,630	38,720	27,465	53,532	51,790	53,225	51,154	48,668
EBITDA[(1)]	11,727	12,719	10,055	3,743	11,102	14,617	12,739	9,115
EBITDA as a % of revenue (EBITDA margin)	23.3%	24.7%	26.8%	6.5%	17.7%	21.5%	19.9%	15.8%
Adjusted EBITDA without adoption of IFRS 16[(2)]	9,580	10,785	7,558	7,109	9,116	12,286	10,488	6,803
Adjusted EBITDA without adoption of IFRS 16 as a % of revenue	19.0%	21.0%	20.1%	12.4%	14.5%	18.1%	16.4%	11.8%
Depreciation and amortization	7,110	6,840	6,853	7,081	7,011	7,059	6,979	6,916
Finance expense	836	1,141	791	1,193	1,213	1,510	1,566	1,513
Earnings (loss) before income taxes	3,781	4,738	2,411	(4,531)	2,878	6,048	4,194	686
Income tax expense (recovery)	1,646	1,296	798	(1,123)	683	1,379	647	191
Net earnings (loss)	2,135	3,442	1,613	(3,408)	2,195	4,669	3,547	495
Net earnings (loss) as a % of revenue	4.2%	6.7%	4.3%	-6.0%	3.5%	6.9%	5.6%	0.9%
Basic earnings (loss) per share	0.202	0.326	0.153	(0.323)	0.209	0.444	0.338	0.047
Diluted earnings (loss) per share	0.200	0.323	0.152	(0.322)	0.207	0.441	0.336	0.047
Adjusted net earnings without adoption of IFRS 16[(3)]	2,429	3,543	1,292	985	2,408	4,736	3,637	558
Basic adjusted earnings without adoption of IFRS 16 per share	0.230	0.335	0.122	0.093	0.229	0.451	0.346	0.053
Diluted adjusted earnings without adoption of IFRS 16 per share	0.228	0.332	0.122	0.093	0.227	0.447	0.344	0.053
Total assets	323,811	338,591	330,372	336,127	352,059	353,021	361,018	360,563
Total long-term financial liabilities	95,555	113,278	108,207	106,621	116,455	119,102	129,862	123,049
Funds provided by (used in) operations	25,023	(504)	6,289	11,588	11,555	19,816	2,875	9,670
Long-term debt (excludes lease liabilities)	40,657	59,325	56,416	54,693	62,494	66,070	75,952	67,444
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 without adoption of IFRS 16 is defined as EBITDA (defined above) with the exclusion of IFRS 16, and 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 without adoption of IFRS 16 is defined as net earnings with the exclusion of IFRS 16, and 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 using the modified retrospective method but has not restated comparatives for the prior periods, as permitted under the specific transitional provisions of IFRS 16. To enable the comparability of previous periods, the Corporation has provided the 2020 and 2019 figures for both EBITDA and net earnings without adoption of IFRS 16 as separate line items.

(5) Q1 2020 includes an adjustment of $5.5 million for an impairment related charge to the Canadian Division, and is excluded in adjusted EBITDA and adjusted net earnings (loss).

Quarterly Financial Information – Canadian Division

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

Quarterly Financial Information - Canadian Division	2020				2019			
(thousands, except percentages and per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	40,305	37,417	33,598	33,395	33,839	33,224	33,122	32,435
Hospitality revenue	4,268	5,628	1,755	10,316	12,162	16,267	13,477	12,098
Total revenue	44,573	43,045	35,353	43,711	46,001	49,491	46,599	44,533
Expenses included in EBITDA	32,622	30,999	23,779	40,917	37,264	39,068	37,300	37,149
EBITDA[1]	11,951	12,046	11,574	2,794	8,737	10,423	9,299	7,384
EBITDA as a % of revenue (EBITDA margin)	26.8%	28.0%	32.7%	6.4%	19.0%	21.1%	20.0%	16.6%
Adjusted EBITDA without adoption of IFRS 16[2]	10,421	10,609	10,140	6,848	7,283	8,925	7,884	5,960
Adjusted EBITDA without adoption of IFRS 16 as a % of revenue	23.4%	24.6%	28.7%	15.7%	15.8%	18.0%	16.9%	13.4%
Net earnings (loss)	4,500	4,404	4,460	(2,472)	1,760	2,893	2,403	731
Net earnings (loss) as a % of revenue	10.1%	10.2%	12.6%	-5.7%	3.8%	5.8%	5.2%	1.6%
Basic earnings (loss) per share	0.426	0.417	0.423	(0.235)	0.167	0.275	0.229	0.070
Diluted earnings (loss) per share	0.422	0.413	0.420	(0.233)	0.166	0.273	0.228	0.069
Adjusted net earnings without adoption of IFRS 16[3]	4,507	4,422	4,482	1,863	1,835	2,919	2,456	787
Basic adjusted earnings without adoption of IFRS 16 per share	0.426	0.419	0.425	0.177	0.174	0.278	0.234	0.075
Diluted adjusted earnings without adoption of IFRS 16 per share	0.423	0.415	0.422	0.176	0.173	0.276	0.233	0.075

(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 without adoption of IFRS 16 is defined as EBITDA (defined above) with the exclusion of IFRS 16, and 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 without adoption of IFRS 16 is defined as net earnings with the exclusion of IFRS 16, and 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 using the modified retrospective method but has not restated comparatives for the prior periods, as permitted under the specific transitional provisions of IFRS 16. To enable the comparability of previous periods, the Corporation has provided the 2020 and 2019 figures for both EBITDA and net earnings without adoption of IFRS 16 as separate line items.

(5) Q1 2020 includes an adjustment of $5.5 million for an impairment related charge to the Canadian Division, and is excluded in adjusted EBITDA and adjusted net earnings (loss).

Quarterly Financial Information – UK Division

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

Quarterly Financial Information - UK Division *(in reporting currency Canadian $)*	2020				2019[4]			
(thousands, except percentages and per share amounts)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	**1,676**	1,654	1,505	1,653	1,643	1,486	1,607	1,668
Hospitality revenue	**4,108**	6,740	662	11,911	15,248	16,865	15,687	11,582
Total revenue	**5,784**	8,394	2,167	13,564	16,891	18,351	17,294	13,250
Expenses included in EBITDA	**6,008**	7,721	3,686	12,615	14,526	14,157	13,854	11,519
EBITDA[1]	**(224)**	673	(1,519)	949	2,365	4,194	3,440	1,731
EBITDA as a % of revenue (EBITDA margin)	**-3.9%**	8.0%	-70.1%	7.0%	14.0%	22.9%	19.9%	13.1%
Adjusted EBITDA without adoption of IFRS 16[2]	**(841)**	176	(2,582)	261	1,833	3,361	2,604	843
Adjusted EBITDA without adoption of IFRS 16 as a % of revenue	**-14.5%**	2.1%	-119.2%	1.9%	10.9%	18.3%	15.1%	6.4%
Net earnings (loss)	**(2,365)**	(962)	(2,847)	(936)	435	1,776	1,144	(236)
Net earnings (loss) as a % of revenue	**-40.9%**	-11.5%	-131.4%	-6.9%	2.6%	9.7%	6.6%	-1.8%
Basic earnings (loss) per share	**(0.224)**	(0.091)	(0.270)	(0.089)	0.041	0.169	0.109	(0.022)
Diluted earnings (loss) per share	**(0.222)**	(0.090)	(0.268)	(0.088)	0.041	0.168	0.108	(0.022)
Adjusted net earnings (loss) without adoption of IFRS 16[3]	**(2,078)**	(879)	(3,190)	(878)	573	1,817	1,181	(229)
Basic adjusted earnings (loss) without adoption of IFRS 16 per share	**(0.197)**	(0.083)	(0.302)	(0.083)	0.054	0.173	0.112	(0.022)
Diluted adjusted earnings (loss) without adoption of IFRS 16 per share	**(0.195)**	(0.082)	(0.300)	(0.083)	0.054	0.172	0.112	(0.022)

Quarterly Financial Information - UK Division *(in local currency Sterling £)*	2020				2019[4]			
(thousands, except percentages and per share amounts)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	**974**	961	875	962	966	913	935	963
Hospitality revenue	**2,388**	3,916	385	6,931	8,967	10,359	9,126	6,689
Total revenue	**3,362**	4,877	1,260	7,893	9,933	11,272	10,061	7,652
Expenses included in EBITDA	**3,492**	4,487	2,140	7,343	8,543	8,696	8,058	6,654
EBITDA[1]	**(130)**	390	(880)	550	1,390	2,576	2,003	998
EBITDA as a % of revenue (EBITDA margin)	**-3.9%**	8.0%	-69.8%	7.0%	14.0%	22.9%	19.9%	13.1%
Adjusted EBITDA without adoption of IFRS 16[2]	**(488)**	102	(1,499)	150	1,077	2,065	1,517	485
Adjusted EBITDA without adoption of IFRS 16 as a % of revenue	**-14.5%**	2.1%	-119.0%	1.9%	10.9%	18.3%	15.1%	6.4%
Net earnings (loss)	**(1,376)**	(559)	(1,653)	(546)	254	1,091	668	(138)
Net earnings (loss) as a % of revenue	**-40.9%**	-11.5%	-131.2%	-6.9%	2.6%	9.7%	6.6%	-1.8%
Basic earnings (loss) per share	**(0.130)**	(0.053)	(0.157)	(0.052)	0.024	0.104	0.064	(0.013)
Diluted earnings (loss) per share	**(0.129)**	(0.052)	(0.156)	(0.052)	0.024	0.103	0.063	(0.013)
Adjusted net earnings (loss) without adoption of IFRS 16[3]	**(1,210)**	(510)	(1,853)	(512)	336	1,115	690	(134)
Basic adjusted earnings (loss) without adoption of IFRS 16 per share	**(0.114)**	(0.048)	(0.176)	(0.049)	0.032	0.106	0.066	(0.013)
Diluted adjusted earnings (loss) without adoption of IFRS 16 per share	**(0.114)**	(0.048)	(0.174)	(0.048)	0.032	0.105	0.065	(0.013)

(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 without adoption of IFRS 16 is defined as EBITDA (defined above) with the exclusion of IFRS 16, and 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 without adoption of IFRS 16 is defined as net earnings with the exclusion of IFRS 16, and 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 using the modified retrospective method but has not restated comparatives for the prior periods, as permitted under the specific transitional provisions of IFRS 16. To enable the comparability of previous periods, the Corporation has provided the 2020 and 2019 figures for both EBITDA and net earnings without adoption of IFRS 16 as separate line items.

Revenue, Earnings and EBITDA

For the year ended December 31, 2020, K-Bro's consolidated revenue decreased by 22.1% to $196.6 million from $252.4 million in the comparative period. This decrease was primarily due to the significant reduction in hospitality revenue related to the COVID-19 pandemic. In 2020, approximately 76.9% of K-Bro's consolidated revenue was generated from healthcare institutions, which is higher compared to 55.1% in 2019. This was primarily related to the COVID-19 pandemic's effect on the hospitality segment, as described above.

Consolidated EBITDA decreased in the year to $38.2 million from $47.6 million in 2019, which is an decrease of 19.6%. The consolidated EBITDA margin increased to 19.5% in 2020 compared to 18.8% in 2019. Included in 2020 consolidated EBITDA is a charge related to the impairment of assets of $5.5 million. This results in a 2.8% decrease to the consolidated EBITDA margin for 2020. This is offset by government assistance received in 2020 for the Canadian division in the amount of $8.3 million which has been netted against the respective source of the expense. Consolidated adjusted EBITDA decreased in the year to $35.0 million from $38.9 million in 2019, which is an decrease of 9.5%. The consolidated adjusted EBITDA margin increased to 17.8% 2020 compared to 15.3% in 2019. The reduction in the adjusted EBITDA and increase in adjusted EBITDA margin can be attributed to the reduced hospitality volume as a result of the COVID-19 pandemic, offset by government assistance received in 2020 for the Canadian division in the amount of $8.3 million which has been netted against the respective source of the expense.

The UK division also received government assistance during 2020 in the amount of £3.4 million ($5.9 million) which has been netted against the respective source of the expense. For the first two quarters there was no impact to EBITDA in relation to the government assistance, however, beginning in the third quarter of 2020 onwards, government assistance received by the UK division through the CJRS required that companies share in the cost of the program and as a result the impact to EBITDA during 2020 was a cost of £95k ($164k), which represents the UK division's contribution for hours and certain benefits in the third and fourth quarters. For greater clarity, until July 2020, the UK division received an equivalent amount from the government that was then paid to furloughed employees netting to no impact on EBITDA however starting in August 2020, the UK division was required to make contributions for hours and certain benefits.

Net earnings decreased by $7.1 million or 65.3% from $10.9 million in 2019 to $3.8 million in 2020, and net earnings as a percentage of revenue decreased by 2.4% to 1.9% in 2020 from 4.3% in 2019. The change in net earnings is primarily related to the flow through items in EBITDA discussed above, lower finance costs related to the revolving credit facility, and lower income tax expense.

Operating Expenses

Wages and benefits decreased by $32.0 million to $67.6 million compared to $99.6 million in the comparative period of 2019, and as a percentage of revenue decreased by 5.0% to 34.4%. The decrease as a percentage of revenue is primarily related to $7.0 million government assistance received in the Canadian division, improvements in labour efficiencies, offset by escalating minimum wage rates and restructuring costs of $1.4 million related to the COVID-19 pandemic.

Linen decreased by $2.7 million to $24.8 million compared to $27.5 million in the comparative period of 2019, and as a percentage of revenue increased by 1.7% to 12.6%. The increase as a percentage of revenue is primarily related to the higher proportion of healthcare revenue. The reduction in total cost relates to decreased linen amortization on the hospitality portion of the Corporation's business which is a result of the COVID-19 pandemic.

Utilities decreased by $4.8 million to $11.6 million compared to $16.4 million in the comparative period of 2019, and as a percentage of revenue decreased by 0.6% to 5.9%. The decrease as a percentage of revenue is primarily related to lower utility costs in British Columbia as a result of a temporary natural gas supply shortage during the first quarter of 2019, lower commodity costs, and operational measures to offset the impact of COVID-19.

Delivery decreased by $8.1 million to $20.7 million compared to $28.8 million in the comparative period of 2019, and as a percentage of revenue decreased by 0.9% to 10.5%. The decrease as a percentage of revenue is primarily related to government assistance received, in addition to management's efforts to offset the impact of COVID-19 in the delivery operations of each plant through temporary reductions in the delivery labour force, logistics and delivery route optimizations, offset by fixed costs which remain constant regardless of the reduction in volume resulting from the COVID-19 pandemic and price increases from renewals of outsourced freight contracts.

Occupancy costs decreased by $0.9 million to $3.6 million compared to $4.5 million in the comparative period of 2019, and as a percentage of revenue remained constant at 1.8%. This includes fixed costs that remain constant regardless of the reduction in volume resulting from the COVID-19 pandemic, offset by rent concessions received in certain plants in the UK in the amount of $0.5 million recorded in the second quarter of 2020.

Materials and supplies decreased by $1.3 million to $7.0 million compared to $8.3 million in the comparative period of 2019, and as a percentage of revenue increased by 0.3% to 3.6%. The increase as a percentage of revenue is primarily related to additional personal protective equipment required as a result of the COVID-19 pandemic and one-time cost recoveries in 2019.

Repairs and maintenance decreased by $1.8 million to $7.0 million compared to $8.8 million in the comparative period of 2019, and as a percentage of revenue remained relatively constant at 3.6%. The decrease in costs is a result of the reduction in volume resulting from the COVID-19 pandemic and timing of maintenance activities.

Corporate costs decreased by $0.6 million to $10.5 million compared to $11.1 million in the comparative period of 2019, and as a percentage of revenue increased by 1.0% to 5.4%. The increase as a percentage of revenue is primarily related to fixed costs that remain constant regardless of the reduction in volume resulting from the COVID-19 pandemic, restructure costs, bad debt expense, and offset by government assistance received.

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

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

LIQUIDITY AND CAPITAL RESOURCES

In 2020, cash generated by operating activities was $42.4 million with a debt to total capitalization of 17.9%. The change in cash from operations is primarily due to the change in working capital items driven mainly from and the impact of the COVID-19 pandemic, particularly additional linen expenditures made to support increased healthcare volumes due to the COVID-19 pandemic offset by collections of accounts receivable. The Corporation's capital structure includes working capital, a committed revolving credit facility and share capital. We continuously monitor actual and forecast cash flows and monitor the availability on our committed credit facility. Management believes the unutilized balance of $58.7 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 2020, cash used in financing activities was $40.8 million compared to $27.1 million in 2019. Financing activities consisted of net repayment of the revolving credit facility, dividends paid to Shareholders and principal elements of lease payments.

During 2020, cash used in investing activities was $4.4 million compared to $14.3 million in 2019. 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:

		Payments due by Period				
(thousands)		Total	2021	2022 to 2023	2024 to 2025	Subsequent
Long-term debt	$	40,657	-	40,657	-	-
Lease liabilities	$	61,539	8,335	14,423	11,648	27,133
Utility commitments	$	5,170	5,170	-	-	-
Linen purchase obligations	$	4,527	4,527	-	-	-
Property, plant and equipment commitments	$	42	42	-	-	-

The lease liabilities are secured by automotive equipment and plants and are more fully described in the Corporation's audited annual consolidated financial statements for the year ended December 31, 2020. The source of funds for these commitments will be from operating cash flow and, if necessary, the undrawn portion of the revolving credit facility.

Financial Position

(thousands, except percentages)	Years Ended December 31, 2020	Years Ended December 31, 2019
Cash and cash equivalents	$ (2,416)	$ (5,301)
Long-term debt (excludes lease liabilities)	40,657	62,494
Shareholders' equity	189,504	196,051
Total capital	$ 227,745	$ 253,244
Debt to total capital (see *Terminology* for definition)	17.9%	24.7%

The Corporation is subject to the following covenants as defined in the credit facility agreement:

Financial Covenant	Limit for December 31, 2020	December 31, 2020	December 31, 2019
Funded Debt to Credit Facility EBITDA[1]	4.50	1.03	1.57
Fixed Charge Coverage Ratio	1.10	12.90	7.39

[1] The financial covenants include financial measures defined within the credit facility agreement that are not defined under IFRS. For purposes of calculating EBITDA for bank compliance reporting EBITDA is defined as Adjusted EBITDA with certain addbacks.

For the year ended December 31, 2020, the Corporation had a debt to total capital of 17.9%, unused revolving credit facility of $58.7 million and has not incurred any events of default under the terms of its credit facility.

As at December 31, 2020, the Corporation had net working capital of $27.9 million compared to its working capital position of $31.0 million at December 31, 2019. The decrease in working capital is primarily attributable to a decrease in working capital requirements from the UK division due to the impact of COVID-19 and the reduction business activity, timing differences related to cash receipts from customers, and a decrease in cash and cash equivalents.

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

DIVIDENDS

Fiscal Period	Payment Date	# of Shares outstanding	2020 Amount per Share		2020 Total Amount (1)(3)(5)(7)		2019 Amount per Share		2019 Total Amount (2)(4)(6)(8)
January	February 14	10,604,029	$	0.10000	$	1,060	$ 0.10000	$	1,056
February	March 13	10,604,029		0.10000		1,060	0.10000		1,056
March	April 15	10,604,029		0.10000		1,060	0.10000		1,056
Q1			$	0.30000	$	3,181	$ 0.30000	$	3,168
April	May 15	10,604,029	$	0.10000	$	1,060	$ 0.10000	$	1,056
May	June 15	10,676,889		0.10000		1,068	0.10000		1,060
June	July 15	10,676,889		0.10000		1,068	0.10000		1,060
Q2			$	0.30000	$	3,196	$ 0.30000	$	3,177
July	August 14	10,676,889	$	0.10000	$	1,068	$ 0.10000	$	1,060
August	September 15	10,676,889		0.10000		1,068	0.10000		1,060
September	October 15	10,676,889		0.10000		1,068	0.10000		1,060
Q3			$	0.30000	$	3,203	$ 0.30000	$	3,181
October	November 13	10,676,889	$	0.10000	$	1,068	$ 0.10000	$	1,060
November	December 15	10,676,889		0.10000		1,068	0.10000		1,060
December	January 15	10,676,889		0.10000		1,068	0.10000		1,060
Q4			$	0.30000	$	3,203	$ 0.30000	$	3,181
YTD			$	1.20000	$	12,783	$ 1.20000	$	12,707

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

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

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

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

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

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

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

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

For the year ended December 31, 2020, the Corporation declared a $1.200 per Common Share dividend compared to $2.942 per Common Share of Distributable Cash Flow (see "*Terminology*"). The actual payout ratio was 40.9%.

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

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

DISTRIBUTABLE CASH FLOW (see "*Terminology*")

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

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

(thousands, except percentages and per share amounts)	2020				2019[4]			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash (used in) provided by operating activities	**$ 25,023**	$ (504)	$ 6,289	$ 11,588	$ 11,555	$ 19,816	$ 2,875	$ 9,670
Deduct (add):								
Net changes in non-cash working capital items[1]	**16,111**	(13,724)	(2,926)	3,011	1,534	7,463	(8,615)	1,484
Share-based compensation expense	**410**	693	189	507	404	427	439	540
Maintenance capital expenditures[2]	**(11)**	35	280	328	1,072	1,352	1,143	374
Principal elements of lease payments[5]	**1,627**	1,442	1,487	1,666	1,501	1,806	1,736	1,648
Distributable cash flow[5]	**$ 6,886**	$ 11,050	$ 7,259	$ 6,076	$ 7,044	$ 8,768	$ 8,172	$ 5,624
Dividends declared	**3,203**	3,203	3,196	3,181	3,181	3,181	3,177	3,168
Dividends declared per share	**0.300**	0.300	0.300	0.300	0.300	0.300	0.300	0.300
Payout ratio[3]	**46.5%**	29.0%	44.0%	52.4%	45.2%	36.3%	38.9%	56.3%
Weighted average shares outstanding during the period, basic	**10,575**	10,563	10,551	10,539	10,521	10,511	10,504	10,497
Weighted average shares outstanding during the period, diluted	**10,658**	10,667	10,627	10,591	10,588	10,584	10,558	10,546
Trailing-twelve months ("TTM")								
Distributable cash flow	**31,271**	31,429	29,147	30,060	29,608	28,375	26,879	25,190
Dividends	**12,783**	12,761	12,739	12,720	12,707	12,694	12,681	12,667
Payout ratio[3]	**40.9%**	40.6%	43.7%	42.3%	42.9%	44.7%	47.2%	50.3%

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

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

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

(4) Effective January 1, 2019, the Corporation has adopted IFRS 16 using the modified retrospective method but has not restated comparatives for the prior periods, as permitted under the specific transitional provisions of IFRS 16.

(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 December 31, 2020, the Corporation had 10,676,889 Common Shares outstanding. Basic and diluted weighted average number of Common Shares outstanding for 2020 were 10,557,147 and 10,629,237, respectively (10,508,080 and 10,571,347, respectively, for the comparative 2019 periods).

In accordance with the Corporation's Long Term Incentive ("LTI") plan and in conjunction with the performance of the Corporation in the 2019 fiscal year, on April 24, 2020 the Compensation, Nominating and Corporate Governance Committee approved LTI compensation of $1.8 million (2019 – $1.7 million) to be paid as Common Shares issued from treasury. As at December 31, 2020, the value of the Common Shares held by the LTI custodian was $3.1 million (December 31, 2019 – $2.7 million) which was comprised of 79,423 in unvested Common Shares (December 31, 2019 – 64,924) with a nil aggregate cost (December 31, 2019 – $nil).

As at March 18, 2021 there were 10,676,889 Common Shares issued and outstanding including 79,423 Common Shares issued but held as unvested treasury shares.

RELATED PARTY TRANSACTIONS

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by Mr. Matthew Hills, a member of the Board of Directors. The amounts charged are recorded at their exchange amounts and are on arm's length terms. For the year ended December 31, 2020, the Corporation incurred fees totaling $138,000 (2019 – $138,000).

CRITICAL ACCOUNTING ESTIMATES

The Corporation's summary of significant accounting policies are contained in Note 2 to the 2020 Audited Financial Statements.

The 2020 Audited Financial Statements include estimates and assumptions made by management in respect of operating results, financial conditions, contingencies, commitments, and related disclosures. Actual results may vary from these estimates. The following are, in the opinion of management, the Corporation's most critical accounting estimates, being those that involve the most difficult, subjective and complex judgments, and/or requiring estimates that are inherently uncertain and which may change in subsequent reporting periods.

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

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

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

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

- volume rebates;
- linen in service;
- intangible assets;
- goodwill;
- income taxes;
- provisions; and,
- allowance for doubtful accounts;
- segment information;
- property, plant and equipment;
- right of use assets and lease liabilities; and,
- lease terms.

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

COVID-19 Risk

The ongoing COVID-19 pandemic has caused world governments to institute travel restrictions both in and out of and within Canada and the UK, which has had, and is expected to continue to have a significant adverse impact on the Corporation's hospitality business, the duration of which we are unable to predict with any degree of accuracy.

The extent of such negative effects on our hospitality business and our financial and operational performance will depend on future developments, including the duration, spread and severity of COVID-19 outbreaks, the availability and effectiveness of the vaccine, the duration and geographic scope of related travel advisories and restrictions and the extent of the impact of the COVID-19 pandemic on overall demand for personal and business travel, all of which are highly uncertain and cannot be predicted with any degree of accuracy. As hotels continue to experience significantly reduced occupancy rates for an extended period, consolidated results of operations will be significantly impacted. The extent to which the outbreaks affects our earnings will depend on the length of time the hospitality industry continues to experience reduced occupancy rates. Earnings will continue to be particularly affected if we continue to experience further reductions in travel and reduced hospitality occupancy rates. Additionally, our suppliers or other third parties we rely upon may experience delays or shortages, which could have an adverse effect on our business prospects and results of operations.

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

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

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

Areas of Significant Judgement

Recognition of rebate liabilities

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

Impairment of goodwill and non-financial assets

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

The Corporation applies judgment in:

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

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

Segment identification

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

Lease term

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

Areas of Estimation Uncertainty

Incremental Borrowing Rate

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

Amortization of property, plant and equipment, and intangible assets

In applying its accounting policy for the amortization of property, plant and equipment, and intangible assets, management considers all appropriate facts and circumstances in the determination of the appropriate rates and methodology to allocate costs over their estimated useful lives, including historical experience, current volumetric run-rates, and expected future events.

Linen in service

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

Provisions

The Corporation's provision includes restructure costs and the restoration for premises of its leased plants. The Corporation determines restructure costs based off employment standards and legal consultation. For leased plants, a provision has been recognized for the present value of the estimated expenditure required to remove any leasehold improvements and installed equipment. Refer to Note 10 for more details about estimation for this provision.

Impairment of goodwill and non-financial assets

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

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

TERMINOLOGY

EBITDA

K-Bro reports EBITDA (Earnings before interest, taxes, depreciation and amortization) as a key measure used by management to evaluate performance. EBITDA is utilized to measure compliance with debt covenants and to make decisions related to dividends to Shareholders. We believe EBITDA assists investors to assess our performance on a consistent basis as it is an indication of our capacity to generate income from operations before taking into account management's financing decisions and

costs of consuming tangible and intangible capital assets, which vary according to their vintage, technological currency and management's estimate of their useful life. Accordingly, EBITDA comprises revenues less operating costs before financing costs, capital asset and intangible asset amortization, and income taxes.

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

	Three Months Ended December 31,		Years Ended December 31,	
(thousands)	**2020**	2019	**2020** (1)	2019
Net earnings	**$ 2,135**	$ 2,195	**$ 3,782**	$ 10,906
Add:				
Income tax expense	**1,646**	683	**2,617**	2,900
Finance expense	**836**	1,213	**3,961**	5,802
Depreciation of property, plant and equipment	**6,157**	6,053	**24,048**	24,705
Amortization of intangible assets	**953**	958	**3,836**	3,260
EBITDA	**$ 11,727**	$ 11,102	**$ 38,244**	$ 47,573

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

Non-GAAP Measures

Adjusted EBITDA without adoption of IFRS 16

Adjusted EBITDA without adoption of IFRS 16 is a measure which has been reported in order to assist in the comparison of historical EBITDA to current results. "Adjusted EBITDA" without adoption of IFRS 16 is defined as EBITDA (defined above) with the exclusion of IFRS 16, and certain material items that are unusual in nature, infrequently occurring or not considered part of our core operations.

	Three Months Ended December 31,					
(thousands)	Canadian Division 2020	UK Division 2020	**2020**	Canadian Division 2019	UK Division 2019	2019
EBITDA	$ 11,951	$ (224)	**$ 11,727**	$ 8,737	$ 2,365	$ 11,102
Add back IFRS 16 Adjustments:						
Delivery	(423)	(441)	**(864)**	(343)	(360)	(703)
Occupancy costs	(1,107)	(176)	**(1,283)**	(1,111)	(172)	(1,283)
EBITDA without adoption of IFRS 16	$ 10,421	$ (841)	**$ 9,580**	$ 7,283	$ 1,833	$ 9,116
Add back non-reoccuring items:						
Impairment of assets	-	-	**-**	-	-	-
				-	-	-
Adjusted EBITDA without adoption of IFRS 16	$ 10,421	$ (841)	**$ 9,580**	$ 7,283	$ 1,833	$ 9,116

(thousands)	Canadian Division 2020	UK Division 2020	2020	Canadian Division 2019	UK Division 2019	2019
	Years Ended December 31,					
EBITDA	$ 38,365	$ (121)	$ 38,244	$ 35,843	$ 11,730	$ 47,573
Add back IFRS 16 Adjustments:						
Delivery	(1,442)	(1,582)	(3,024)	(1,391)	(2,001)	(3,392)
Occupancy costs	(4,421)	(1,283)	(5,704)	(4,400)	(1,088)	(5,488)
EBITDA without adoption of IFRS 16	$ 32,502	$ (2,986)	$ 29,516	$ 30,052	$ 8,641	$ 38,693
Add back non-reoccuring items:						
Impairment of assets	5,516	-	5,516	-	-	-
				-	-	-
Adjusted EBITDA without adoption of IFRS 16	$ 38,018	$ (2,986)	$ 35,032	$ 30,052	$ 8,641	$ 38,693

Adjusted net earnings without adoption of IFRS 16 and adjusted net earnings without adoption of IFRS 16 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 IFRS 16, and certain material items that are unusual in nature, infrequently occurring or not considered part of our core operations.

(thousands)	Canadian Division 2020	UK Division 2020	2020	Canadian Division 2019	UK Division 2019	2019
	Three Months Ended December 31,					
Net earnings (loss)	$ 4,500	$ (2,365)	$ 2,135	$ 1,760	$ 435	$ 2,195
Add back IFRS 16 Adjustments:						
Delivery	(423)	(441)	(864)	(343)	(360)	(703)
Occupancy costs	(1,107)	(176)	(1,283)	(1,111)	(172)	(1,283)
Depreciation of property, plant and equipment	1,169	812	1,981	1,166	602	1,768
Finance expense	371	151	522	391	97	488
Income tax expense	(3)	(59)	(62)	(27)	(28)	(55)
Net earnings (loss) without adoption of IFRS 16	$ 4,507	$ (2,078)	$ 2,429	$ 1,836	$ 574	$ 2,410
Add back non-reoccuring items (net of income taxes):						
Impairment of assets	-	-	-	-	-	-
				-	-	-
Adjusted net earnings (loss) without adoption of IFRS 16	$ 4,507	$ (2,078)	$ 2,429	$ 1,836	$ 574	$ 2,410
Weighted average number of shares outstanding:						
Basic	10,574,768	10,574,768	10,574,768	10,520,843	10,520,843	10,520,843
Diluted	10,657,750	10,657,750	10,657,750	10,588,170	10,588,170	10,588,170
Adjusted net earnings (loss) without adoption of IFRS 16 per share:						
Basic	$0.426	($0.197)	$0.230	$0.174	$0.054	$0.229
Diluted	$0.423	($0.195)	$0.228	$0.173	$0.054	$0.227

(thousands)	Canadian Division 2020	UK Division 2020	2020	Canadian Division 2019	UK Division 2019	2019
	Years Ended December 31,					
Net earnings (loss)	$ 10,892	$ (7,110)	$ 3,782	$ 7,787	$ 3,119	10,906
Add back IFRS 16 Adjustments:						
Delivery	(1,442)	(1,582)	(3,024)	(1,391)	(2,001)	(3,392)
Occupancy costs	$ (4,421)	$ (1,283)	(5,704)	(4,400)	(1,088)	(5,488)
Depreciation of property, plant and equipment	$ 4,469	$ 2,516	6,985	4,457	2,908	7,365
Finance expense	$ 1,492	$ 452	1,944	1,620	450	2,070
Income tax expense	$ (25)	$ (18)	(43)	(76)	(46)	(122)
Net earnings (loss) without adoption of IFRS 16	$ 10,965	$ (7,025)	$ 3,940	$ 7,997	$ 3,342	$ 11,339
Add back non-reoccuring items (net of income taxes):						
Impairment of assets	4,309	-	4,309	- -	- -	- -
Adjusted net earnings (loss) without adoption of IFRS 16	$ 15,274	$ (7,025)	$ 8,249	$ 7,997	$ 3,342	$ 11,339
Weighted average number of shares outstanding:						
Basic	10,557,147	10,557,147	10,557,147	10,508,080	10,508,080	10,508,080
Diluted	10,629,237	10,629,237	10,629,237	10,571,347	10,571,347	10,571,347
Adjusted net earnings (loss) without adoption of IFRS 16 per share:						
Basic	$1.447	($0.665)	$0.781	$0.761	$0.318	$1.079
Diluted	$1.437	($0.661)	$0.776	$0.756	$0.316	$1.072

Distributable Cash Flow

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

Payout Ratio

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

Debt to Total Capital

"Debt to total capital" is defined by management as the total long-term debt (excludes lease liabilities) divided by the Corporation's total capital. This is a measure used by investors to assess the Corporation's financial structure.

Distributable cash flow, payout ratio, debt to total capital adjusted EBITDA, adjusted net earnings, and adjusted net earnings per share are not calculations based on IFRS and are not considered an alternative to IFRS measures in measuring K-Bro's performance. Distributable cash Flow, payout ratio, adjusted EBITDA, adjusted net earnings, and adjusted net earnings per share do not have standardized

meanings in IFRS and are therefore not likely to be comparable with similar measures used by other issuers.

Off Balance Sheet Arrangements

As at December 31, 2020, the Corporation has not entered into any off balance sheet arrangements.

CHANGES IN ACCOUNTING POLICIES

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

RECENT ACCOUNTING PRONOUNCEMENTS

The Corporation has not adopted any standard, interpretation or amendment that has been issued but is not yet effective and no material impact is expected on the Corporation's consolidated financial statements.

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

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

The Corporation does not expect a material impact from the application of the Phase 2 amendments given that the contractual cash flows of its financial instruments and lease liabilities are not dependent upon any interest rate benchmarks under the scope of the reform and the Corporation does not apply hedge accounting.

FINANCIAL INSTRUMENTS

The Corporation's financial instruments at December 31, 2020 and 2019 consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, lease liabilities, dividends payable to shareholders, and long term debt. The Corporation does not enter into financial instruments for trading or speculative purposes.

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

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

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

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

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

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period and included as part of the profit and loss. Derivative financial instruments are utilized by the Corporation to manage cash flow risk against the volatility in interest rates on its long-term debt and foreign exchange rates on its equipment purchase commitments. The Corporation typically does not utilize derivative financial instruments for trading or speculative purposes.

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

The Corporation has entered into several electrical and natural gas contracts at December 31, 2020. The Corporation has examined the terms of the natural gas and electricity contracts and has determined that these contracts will be physically settled and as such are not considered to be financial instruments.

CRITICAL RISKS AND UNCERTAINTIES

As at December 31, 2020, there are no material changes in the Corporation's risks or risk management activities since December 31, 2019. The Corporation's results of operations, business prospects, financial condition, cash dividends to Shareholders and the trading price of the Common Shares are subject to a number of risks. These risk factors include: the adverse impact of the coronavirus (COVID-19) pandemic on the Corporation, which is significant, particularly to our hospitality segment; dependence on long-term contracts and the associated renewal risk thereof; the effects of market volatility and uncertainty; potential future tax changes; the Corporation's competitive environment and increased competition; our ability to acquire and successfully integrate and operate additional businesses; utility costs; the labour markets; the fact that our credit facility imposes numerous covenants and encumbers assets; and, environmental matters.

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

CONTROLS 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. The Corporation's CEO and CFO have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2020, and the CEO and CFO have concluded that these controls were operating effectively.

Internal Controls over Financial Reporting

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR"). Consequently the CEO and CFO confirm that the additions to these controls that occurred during the year ended December 31, 2020, did not materially affect, or are reasonably likely to materially affect, the Corporation's ICFR. Based upon their evaluation of these controls for the year ended December 31, 2020, the CEO and CFO have concluded that these controls were operating effectively.

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

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

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

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