K·BRO

MANAGEMENT'S DISCUSSION & ANALYSIS

Q2, 2021

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

The following Management's Discussion and Analysis ("MD&A") is supplemental to, and should be read in conjunction with, the unaudited interim Condensed Consolidated Financial Statements of K-Bro Linen Inc. ("the Corporation") for the six months ended June 30, 2021 and the audited Consolidated Financial Statements, as well as the MD&A, for the year ended December 31, 2020. The Corporation and its wholly-owned subsidiaries, including K-Bro Linen Systems Inc., are collectively referred to as "K-Bro" in this MD&A.

Management is responsible for the information contained in this MD&A and its consistency with information presented to the Audit Committee and Board of Directors. All information in this document has been reviewed and approved by the Audit Committee and Board of Directors. This review was performed by management with information available as of August 5, 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 including, without limitation, in connection with the settlement of definitive documentation in respect there of; (v) increased capital expenditure requirements; (vi) reliance on key personnel; (vii) changing trends in government outsourcing; (viii) changes or proposed changes to minimum wage laws in Ontario, British Columbia, Alberta, Quebec, Saskatchewan and the United Kingdom (the "UK"); (ix) the availability of future financing; (x) textile demand; (xi) the adverse impact of the COVID-19 pandemic on the Corporation, which has been significant to date and which we believe will continue to be significant for the short to medium term; 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 shut down 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.

As the COVID-19 pandemic continues to progress throughout Canada and the UK, at least in the short-term to medium-term, we continue to 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 COVID-19 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 throughout the remainder of 2021. For a summary of the impact on revenues for 2020 and 2021 refer to the COVID-19 section which summarizes impact on a monthly and quarterly basis.

SELECTED QUARTERLY FINANCIAL INFORMATION

(In reporting currency $ Canadian)

	Three Months Ended June 30,								
(thousands, except percentages and per share amounts)	Canadian Division 2021	UK Division 2021	2021	Canadian Division 2020	UK Division 2020	2020	Canadian Division 2019	UK Division 2019	2019
Revenue	$ 44,156	$ 8,519	$ 52,675	$ 35,353	$ 2,167	$ 37,520	$ 46,599	$ 17,294	$ 63,893
EBITDA[(1)]	11,422	783	12,205	11,574	(1,519)	10,055	9,299	3,440	12,739
Adjusted EBITDA without adoption of IFRS 16[(2)]	9,945	9	9,954	10,140	(2,582)	7,558	7,884	2,604	10,488
Net earnings (loss)	4,460	(1,049)	3,411	4,460	(2,847)	1,613	2,403	1,144	3,547
Adjusted net earnings (loss) without adoption of IFRS 16[(3)]	4,490	(1,012)	3,478	4,482	(3,190)	1,292	2,456	1,181	3,637
Net earnings (loss) per share:									
Basic	$ 0.421	$ (0.099)	$ 0.322	$ 0.423	$ (0.270)	$ 0.153	$ 0.229	$ 0.109	$ 0.338
Diluted	$ 0.418	$ (0.098)	$ 0.320	$ 0.420	$ (0.268)	$ 0.152	$ 0.228	$ 0.108	$ 0.336
Adjusted net earnings (loss) without adoption of IFRS 16 per share:									
Basic	$ 0.423	$ (0.095)	$ 0.328	$ 0.425	$ (0.302)	$ 0.122	$ 0.234	$ 0.112	$ 0.346
Diluted	$ 0.421	$ (0.095)	$ 0.326	$ 0.422	$ (0.300)	$ 0.122	$ 0.233	$ 0.112	$ 0.344
Total assets			$ 326,157			$ 330,372			$ 361,018
Long-term debt (excludes lease liabilities)			40,696			$ 56,416			75,952
Weighted average number of shares outstanding:									
Basic			10,603,415			10,551,443			10,503,674
Diluted			10,672,659			10,626,893			10,557,643

	Six Months Ended June 30,								
(thousands, except percentages and per share amounts)	Canadian Division 2021	UK Division 2021	2021	Canadian Division 2020	UK Division 2020	2020[(4)]	Canadian Division 2019	UK Division 2019	2019
Revenue	$ 88,858	$ 11,431	$ 100,289	$ 79,064	$ 15,731	$ 94,795	$ 91,132	$ 30,544	$ 121,676
EBITDA[(1)]	22,380	(114)	22,266	14,368	(570)	13,798	16,683	5,171	21,854
Adjusted EBITDA without adoption of IFRS 16[(2)]	19,453	(1,680)	17,773	16,988	(2,321)	14,667	13,844	3,447	17,291
Net earnings (loss)	8,617	(3,572)	5,045	1,988	(3,783)	(1,795)	3,134	908	4,042
Adjusted net earnings (loss) without adoption of IFRS 16[(3)]	8,642	(3,487)	5,155	6,345	(4,068)	2,277	3,243	952	4,195
Net earnings (loss) per share:									
Basic	$ 0.813	$ (0.337)	$ 0.476	$ 0.189	$ (0.359)	$ (0.170)	$ 0.298	$ 0.086	$ 0.385
Diluted	$ 0.808	$ (0.335)	$ 0.473	$ 0.187	$ (0.357)	$ (0.169)	$ 0.297	$ 0.086	$ 0.383
Adjusted net earnings (loss) without adoption of IFRS 16 per share:									
Basic	$ 0.815	$ (0.329)	$ 0.486	$ 0.602	$ (0.386)	$ 0.216	$ 0.309	$ 0.091	$ 0.400
Diluted	$ 0.811	$ (0.327)	$ 0.484	$ 0.598	$ (0.383)	$ 0.215	$ 0.307	$ 0.090	$ 0.397
Total assets			$ 326,157			$ 330,372			$ 361,018
Long-term debt (excludes lease liabilities)			40,696			$ 56,416			75,952
Weighted average number of shares outstanding:									
Basic			10,600,457			10,545,450			10,500,151
Diluted			10,661,731			10,609,815			10,545,951

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

(2) 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) 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).

SUMMARY OF INTERIM RESULTS, AND KEY EVENTS

Net earnings for the second quarter of 2021 were $3.4 million or $0.32 per Common Share (basic). Cash flow from operating activities for the second quarter of 2021 was $3.0 million and distributable cash flow was $7.6 million. Consolidated revenue for the second quarter of 2021 increased to $52.7 million or by 40.4% compared to 2020 primarily related to restrictions from the COVID-19 pandemic being eased which drove stronger hospitality client activity and the continued strength of healthcare revenues as a result of the COVID-19 pandemic and the resulting healthcare practice changes.

EBITDA (see "Terminology") increased in the second quarter to $12.2 million from $10.1 million in 2020, which is an increase of 21.4%. For the Canadian division, the Corporation recorded EBITDA of $11.4 million during the second quarter of 2021 compared to $11.6 million in the second quarter of 2020. For the UK division, the Corporation recorded EBITDA of $0.8 million during the second quarter of 2021 compared to a loss of $1.5 million in the second quarter of 2020. The decrease of $0.2 million in the Canadian division is a result of a reduction in the amount of CEWS subsidy received in the quarter ($0.5 million in Q2 2021 compared to $5.6 million in Q2 2020) which is partially offset by an accrual for restructuring costs in the amount of $1.6 million that was recorded in the second quarter of 2020, of which $1.0 million related to the Canadian division and $0.6 million related to the UK division as well as increased client activity in both the healthcare and hospitality segments. For the UK division, the increase in EBITDA of $2.3 million is predominantly driven by increased client activity related to restrictions from the COVID-19 pandemic being eased and the impact from the accrual for severance ($0.6 million) and bad debts ($0.5 million) that were recorded in Q2 2020. On a consolidated basis, the Corporation's EBITDA margin decreased from 26.8% in 2020 to 23.2% in 2021. For the Canadian division, EBITDA margin decreased to 25.9% from 32.7% for the comparative quarter of 2021. For the UK division, EBITDA margin increased to 9.2% from -70.1% for the comparative quarter of 2021.

For the Canadian division, the Canadian Emergency Wage Subsidy ("CEWS") was announced by the Federal Government in response to the COVID-19 pandemic on March 27, 2020. The CEWS program, subsidizes a percentage of employee wages (subject to certain caps) designed for eligible Canadian employers whose businesses have been impacted by the COVID-19 pandemic and is intended to help employers rehire previously laid off workers, retain existing employees, and assist Canadian businesses through the COVID-19 pandemic. The CEWS program allowed the Corporation to preserve a significant number of jobs. Without the benefit of this wage subsidy, the Canadian operations would have taken available alternative actions. During the second quarter of 2021, the Corporation has recognized $0.5 million (2020 - $5.6 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. During second quarter of 2021, the Corporation has recognized £1.1 million ($1.9 million) which has been netted against the respective source of the expense as compared to Q2 2020 when the Corporation recorded £2.0 million ($3.5million) of wage subsidy. The terms of the CJRS require companies to share in the cost of the program, and as a result the impact to EBITDA was a cost of £43k ($74k) (2020 - £0k ($0k)) which represents the UK division's contribution for hours and certain benefits. For greater clarity, between April to July 2020 the UK division received an equivalent amount from the government that was then paid to furloughed employees netting to no impact on EBITDA, however starting in August 2020 the UK division was required to make contributions for hours and certain benefits.

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 progression 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 its 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 additional rural and urban locations in Alberta. As part of the award, it is anticipated that volumes will increase through the addition of new sites however everything remains subject to settlement of definitive documentation.

On April 27, 2021, the Corporation was selected to provide laundry services for Alberta Health Services ("AHS") for the entire province. The award is the result of a competitive RFP process and extends K-Bro's existing relationships with AHS. The terms of the new contract remain subject to negotiation and additional details will be provided once the new contract is entered into.

On July 26, 2021, the Corporation announced the signing of a new 11-year contract, with renewal options for up to an additional 9 years, to provide laundry and linen services for AHS province-wide. The contract is anticipated to add approximately $10.0 million in incremental annual revenue with margins consistent with K-Bro's historical adjusted EBITDA margin without the adoption of IFRS 16. The Corporation expects to incur one-time transition costs and have temporary margin impacts as the new volume is transitioned into the Corporation's two facilities in Edmonton and Calgary. It is anticipated that the Corporation will return to normalized margins once the transition is complete in mid-2022. Capital expenditures are projected in the amount of approximately $10 million for new linen carts and additional equipment to support the additional volumes.

The award renews all of K-Bro's existing volume in Edmonton and Calgary and awards additional healthcare volume for other sites in Alberta. The new volume will be serviced from K-Bro's existing state-of-the-art facilities in Edmonton and Calgary.

British Columbia Contract Award

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

Revolving Credit Facility

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

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

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

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

Capital Investment Plan

For fiscal 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 were paid in 2021. Nor does this account for the projected $10.0 million in additional capital expenditures to support the new AHS business that was announced earlier in 2021 and is discussed above under the Alberta Contract Award. We will continue to assess capital needs within our facilities and prioritize projects that have shorter term paybacks as well as those that are required to maintain efficient and reliable operations.

COVID-19 Pandemic

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

In addition to this, in late Q1 2020 and into Q2 2020 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 2020 progressed, we saw a return to more normal healthcare levels with subsequent quarters increasing above historical levels due to increased demand however we cannot predict with certainty how the progression of COVID-19 will impact overall volumes.

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

Month	Healthcare Revenue Change (2020 compared to 2019)	Hospitality Revenue Change (2020 compared to 2019)	Consolidated Revenue Change (2020 compared to 2019)	Month	Healthcare Revenue Change (2021 compared to 2019)	Hospitality Revenue Change (2021 compared to 2019)	Consolidated Revenue Change (2021 compared to 2019)
January	3%	7%	5%	January	25%	-80%	-14%
February	5%	7%	6%	February	26%	-82%	-19%
March	0%	-27%	-12%	March	28%	-80%	-20%
Q1 2020 compared to Q1 2019 (Jan to March)	**3%**	**-6%**	**-1%**	**Q1 2021 compared to Q1 2019 (Jan to March)**	**26%**	**-81%**	**-18%**
April	-8%	-94%	-45%	April	24%	-81%	-22%
May	2%	-92%	-39%	May	21%	-69%	-19%
June	9%	-90%	-40%	June	22%	-49%	0%
Q2 2020 compared to Q2 2019 (April to June)	**1%**	**-92%**	**-41%**	**Q2 2021 compared to Q2 2019 (April to June)**	**23%**	**-66%**	**-18%**
July	13%	-76%	-29%	July			
August	12%	-59%	-23%	August			
September	12%	-53%	-20%	September			
Q3 2020 compared to Q3 2019 (July to September)	**12%**	**-63%**	**-24%**	**Q3 2020 compared to Q3 2019 (July to September)**			
October	12%	-61%	-20%	October			
November	19%	-69%	-18%	November			
December	24%	-78%	-22%	December			
Q4 2020 compared to Q4 2019 (October to December)	**18%**	**-69%**	**-20%**	**Q4 2020 compared to Q4 2019 (October to December)**			
YTD	**9%**	**-60%**	**-22%**	**YTD**	**25%**	**-73%**	**-18%**

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

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

Based on management's review, there were no CGUs as at June 30, 2021 showing signs of impairment that were not already considered at March 31, 2020 and updated as required at December 31, 2020. The Corporation will continue to carefully monitor the situation as it pertains to COVID-19 and further consider if there are new, or additional indicators, that exist during the year.

With the ongoing development of the COVID-19 pandemic, the length and severity of these developments is therefore subject to significant uncertainty, and accordingly 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 June 30,

(thousands, except percentages and per share amounts)

Category	Indicator	Canadian Division 2021	UK Division 2021	2021	Canadian Division 2020	UK Division 2020	2020
Growth	EBITDA[1]	-1.3%	151.5%	21.4%	24.5%	-144.2%	-21.1%
	Adjusted EBITDA without adoption of IFRS 16[2]	-1.9%	100.3%	31.7%	28.6%	-199.2%	-27.9%
	Revenue	24.9%	293.1%	40.4%	-24.1%	-87.5%	-41.3%
	Distributable cash flow[4]			4.9%			-11.2%
Profitability	EBITDA[1]	$ 11,422	$ 783	$ 12,205	$ 11,574	$ (1,519)	$ 10,055
	EBITDA margin	25.9%	9.2%	23.2%	32.7%	-70.1%	26.8%
	Adjusted EBITDA without adoption of IFRS 16[2]	$ 9,945	$ 9	$ 9,954	$ 10,140	$ (2,582)	$ 7,558
	Adjusted EBITDA margin without adoption of IFRS 16	22.5%	0.1%	18.9%	28.7%	-119.2%	20.1%
	Net earnings (loss)	$ 4,460	$ (1,049)	$ 3,411	$ 4,460	$ (2,847)	$ 1,613
	Adjusted net earnings (loss) without adoption of IFRS 16[3]	$ 4,490	$ (1,012)	$ 3,478	$ 4,482	$ (3,190)	$ 1,292
Stability	Debt to total capital[6]			17.8%			23.5%
	Unutilized line of credit			$ 57,541			$ 42,434
	Cash on hand			$ 639			$ 3,183
	Payout ratio			42.2%			44.0%
	Dividends declared per share			$ 0.300			$ 0.300
Cost containment	Wages and benefits	34.9%	39.6%	35.7%	26.1%	85.8%	29.5%
	Utilities	5.1%	7.9%	5.6%	5.1%	13.8%	5.6%
	Expenses included in EBITDA	74.1%	90.8%	76.8%	67.3%	170.1%	73.2%

Six Months Ended June 30,

(thousands, except percentages and per share amounts)

Category	Indicator	Canadian Division 2021	UK Division 2021	2021	Canadian Division 2020[5]	UK Division 2020	2020
Growth	EBITDA[1]	55.8%	-80.0%	61.4%	-13.9%	-111.0%	-36.9%
	Adjusted EBITDA without adoption of IFRS 16[2]	14.5%	-27.6%	21.2%	22.7%	-167.3%	-15.2%
	Revenue	12.4%	-27.3%	5.8%	-13.2%	-48.5%	-22.1%
	Distributable cash flow[4]			-2.6%			-3.3%
Profitability	EBITDA[1]	$ 22,380	$ (114)	$ 22,266	$ 14,368	$ (570)	$ 13,798
	EBITDA margin	25.2%	-1.0%	22.2%	18.2%	-3.6%	14.6%
	Adjusted EBITDA without adoption of IFRS 16[2]	$ 19,453	$ (1,680)	$ 17,773	$ 16,988	$ (2,321)	$ 14,667
	Adjusted EBITDA margin without adoption of IFRS 16	21.9%	-14.7%	17.7%	21.5%	-14.8%	15.5%
	Net earnings (loss)	$ 8,617	$ (3,572)	$ 5,045	$ 1,988	$ (3,783)	$ (1,795)
	Adjusted net earnings (loss) without adoption of IFRS 16[3]	$ 8,642	$ (3,487)	$ 5,155	$ 6,345	$ (4,068)	$ 2,277
Stability	Debt to total capital[6]			17.8%			23.5%
	Unutilized line of credit			$ 57,541			$ 42,434
	Cash on hand			$ 639			$ 3,183
	Payout ratio			49.4%			47.8%
	Dividends declared per share			$ 0.600			$ 0.600
Cost containment	Wages and benefits	35.1%	44.3%	36.2%	33.7%	45.2%	35.6%
	Utilities	5.3%	9.2%	5.7%	5.4%	9.1%	6.0%
	Expenses included in EBITDA	74.8%	101.0%	77.8%	81.8%	103.6%	85.4%

(1) EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, finance expense, and depreciation and amortization). See "Terminology".
(2) 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) 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).
(6) Debt to total capital is defined by management as the total long term debt (excludes lease liabilities) divided by the Corporation's total capital. See "Terminology".

Quarterly Financial Information - Consolidated

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

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

Quarterly Financial Information - Consolidated	2021		2020 (4)				2019	
(thousands, except percentages and per share amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Healthcare revenue	42,712	43,058	41,981	39,071	35,103	35,048	35,482	34,710
Hospitality revenue	9,963	4,556	8,376	12,368	2,417	22,227	27,410	33,132
Total revenue	52,675	47,614	50,357	51,439	37,520	57,275	62,892	67,842
Expenses included in EBITDA	40,470	37,553	38,630	38,720	27,465	53,532	51,790	53,225
EBITDA(1)	12,205	10,061	11,727	12,719	10,055	3,743	11,102	14,617
EBITDA as a % of revenue (EBITDA margin)	23.2%	21.1%	23.3%	24.7%	26.8%	6.5%	17.7%	21.5%
Adjusted EBITDA without adoption of IFRS 16(2)	9,954	7,819	9,580	10,785	7,558	7,109	9,116	12,286
Adjusted EBITDA without adoption of IFRS 16 as a % of revenue	18.9%	16.4%	19.0%	21.0%	20.1%	12.4%	14.5%	18.1%
Depreciation and amortization	6,710	6,740	7,110	6,840	6,853	7,081	7,011	7,059
Finance expense	901	865	836	1,141	791	1,193	1,213	1,510
Earnings (loss) before income taxes	4,594	2,456	3,781	4,738	2,411	(4,531)	2,878	6,048
Income tax expense (recovery)	1,183	822	1,646	1,296	798	(1,123)	683	1,379
Net earnings (loss)	3,411	1,634	2,135	3,442	1,613	(3,408)	2,195	4,669
Net earnings (loss) as a % of revenue	6.5%	3.4%	4.2%	6.7%	4.3%	-6.0%	3.5%	6.9%
Basic earnings (loss) per share	0.322	0.154	0.202	0.326	0.153	(0.323)	0.209	0.444
Diluted earnings (loss) per share	0.320	0.153	0.200	0.323	0.152	(0.322)	0.207	0.441
Adjusted net earnings without adoption of IFRS 16(3)	3,478	1,677	2,429	3,543	1,292	985	2,408	4,736
Basic adjusted earnings without adoption of IFRS 16 per share	0.328	0.158	0.230	0.335	0.122	0.093	0.229	0.451
Diluted adjusted earnings without adoption of IFRS 16 per share	0.326	0.157	0.228	0.332	0.122	0.093	0.227	0.447
Total assets	326,157	316,101	323,811	338,591	330,372	336,127	352,059	353,021
Total long-term financial liabilities	100,306	89,343	95,555	113,278	108,207	106,621	116,455	119,102
Funds provided by (used in) operations	3,047	8,542	25,023	(504)	6,289	11,588	11,555	19,816
Long-term debt (excludes lease liabilities)	40,696	36,811	40,657	59,325	56,416	54,693	62,494	66,070
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300

(1) EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, finance expense, and depreciation and amortization). See "Terminology".
(2) 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) 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	2021		2020[4]				2019	
(thousands, except percentages and per share amounts)	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Healthcare revenue	**41,107**	41,432	40,305	37,417	33,598	33,395	33,839	33,224
Hospitality revenue	**3,049**	3,270	4,268	5,628	1,755	10,316	12,162	16,267
Total revenue	**44,156**	44,702	44,573	43,045	35,353	43,711	46,001	49,491
Expenses included in EBITDA	**32,734**	33,744	32,622	30,999	23,779	40,917	37,264	39,068
EBITDA[1]	**11,422**	10,958	11,951	12,046	11,574	2,794	8,737	10,423
EBITDA as a % of revenue (EBITDA margin)	**25.9%**	24.5%	26.8%	28.0%	32.7%	6.4%	19.0%	21.1%
Adjusted EBITDA without adoption of IFRS 16[2]	**9,945**	9,508	10,421	10,609	10,140	6,848	7,283	8,925
Adjusted EBITDA without adoption of IFRS 16 as a % of revenue	**22.5%**	21.3%	23.4%	24.6%	28.7%	15.7%	15.8%	18.0%
Net earnings (loss)	**4,460**	4,157	4,500	4,404	4,460	(2,472)	1,760	2,893
Net earnings (loss) as a % of revenue	**10.1%**	9.3%	10.1%	10.2%	12.6%	-5.7%	3.8%	5.8%
Basic earnings (loss) per share	**0.421**	0.392	0.426	0.417	0.423	(0.235)	0.167	0.275
Diluted earnings (loss) per share	**0.418**	0.390	0.422	0.413	0.420	(0.233)	0.166	0.273
Adjusted net earnings without adoption of IFRS 16[3]	**4,490**	4,152	4,507	4,422	4,482	1,863	1,835	2,919
Basic adjusted earnings without adoption of IFRS 16 per share	**0.423**	0.392	0.426	0.419	0.425	0.177	0.174	0.278
Diluted adjusted earnings without adoption of IFRS 16 per share	**0.421**	0.389	0.423	0.415	0.422	0.176	0.173	0.276

(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) 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 $)*	2021		2020				2019	
(thousands, except percentages and per share amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Healthcare revenue	**1,605**	1,626	1,676	1,654	1,505	1,653	1,643	1,486
Hospitality revenue	**6,914**	1,286	4,108	6,740	662	11,911	15,248	16,865
Total revenue	**8,519**	2,912	5,784	8,394	2,167	13,564	16,891	18,351
Expenses included in EBITDA	**7,736**	3,809	6,008	7,721	3,686	12,615	14,526	14,157
EBITDA(1)	**783**	(897)	(224)	673	(1,519)	949	2,365	4,194
EBITDA as a % of revenue (EBITDA margin)	**9.2%**	-30.8%	-3.9%	8.0%	-70.1%	7.0%	14.0%	22.9%
Adjusted EBITDA without adoption of IFRS 16(2)	**9**	(1,689)	(841)	176	(2,582)	261	1,833	3,361
Adjusted EBITDA without adoption of IFRS 16 as a % of revenue	**0.1%**	-58.0%	-14.5%	2.1%	-119.2%	1.9%	10.9%	18.3%
Net earnings (loss)	**(1,049)**	(2,523)	(2,365)	(962)	(2,847)	(936)	435	1,776
Net earnings (loss) as a % of revenue	**-12.3%**	-86.6%	-40.9%	-11.5%	-131.4%	-6.9%	2.6%	9.7%
Basic earnings (loss) per share	**(0.099)**	(0.238)	(0.224)	(0.091)	(0.270)	(0.089)	0.041	0.169
Diluted earnings (loss) per share	**(0.098)**	(0.237)	(0.222)	(0.090)	(0.268)	(0.088)	0.041	0.168
Adjusted net earnings (loss) without adoption of IFRS 16(3)	**(1,012)**	(2,475)	(2,078)	(879)	(3,190)	(878)	573	1,817
Basic adjusted earnings (loss) without adoption of IFRS 16 per share	**(0.095)**	(0.234)	(0.197)	(0.083)	(0.302)	(0.083)	0.054	0.173
Diluted adjusted earnings (loss) without adoption of IFRS 16 per share	**(0.095)**	(0.232)	(0.195)	(0.082)	(0.300)	(0.083)	0.054	0.172

Quarterly Financial Information - UK Division *(in local currency Sterling £)*	2021		2020				2019	
(thousands, except percentages and per share amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Healthcare revenue	**935**	931	974	961	875	962	966	913
Hospitality revenue	**4,028**	737	2,388	3,916	385	6,931	8,967	10,359
Total revenue	**4,963**	1,668	3,362	4,877	1,260	7,893	9,933	11,272
Expenses included in EBITDA	**4,505**	2,181	3,492	4,487	2,140	7,343	8,543	8,696
EBITDA(1)	**458**	(513)	(130)	390	(880)	550	1,390	2,576
EBITDA as a % of revenue (EBITDA margin)	**9.2%**	-30.8%	-3.9%	8.0%	-69.8%	7.0%	14.0%	22.9%
Adjusted EBITDA without adoption of IFRS 16(2)	**9**	(967)	(488)	102	(1,499)	150	1,077	2,065
Adjusted EBITDA without adoption of IFRS 16 as a % of revenue	**0.2%**	-58.0%	-14.5%	2.1%	-119.0%	1.9%	10.9%	18.3%
Net earnings (loss)	**(610)**	(1,444)	(1,376)	(559)	(1,653)	(546)	254	1,091
Net earnings (loss) as a % of revenue	**-12.3%**	-86.6%	-40.9%	-11.5%	-131.2%	-6.9%	2.6%	9.7%
Basic earnings (loss) per share	**(0.058)**	(0.136)	(0.130)	(0.053)	(0.157)	(0.052)	0.024	0.104
Diluted earnings (loss) per share	**(0.057)**	(0.135)	(0.129)	(0.052)	(0.156)	(0.052)	0.024	0.103
Adjusted net earnings (loss) without adoption of IFRS 16(3)	**(588)**	(1,417)	(1,210)	(510)	(1,853)	(512)	336	1,115
Basic adjusted earnings (loss) without adoption of IFRS 16 per share	**(0.055)**	(0.134)	(0.114)	(0.048)	(0.176)	(0.049)	0.032	0.106
Diluted adjusted earnings (loss) without adoption of IFRS 16 per share	**(0.055)**	(0.133)	(0.114)	(0.048)	(0.174)	(0.048)	0.032	0.105

(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.

Revenue, Earnings and EBITDA

As a result of COVID-19 pandemic restrictions being eased, consolidated hospitality revenue for the three months ended June 30, 2021 increased by 312.2% over the comparable 2020 period, and the Corporation saw a 21.7% increase in consolidated healthcare revenue for an overall increase in consolidated revenue of 40.4%. On a year-to-date basis, consolidated revenue increased by 5.8% to $100.3 million compared to $94.8 million in the comparative period of 2020. In 2021, approximately 85.5% of K-Bro's consolidated revenue was generated from healthcare institutions, which is higher compared to 74.0% in 2020. This was primarily related to the COVID-19 pandemic's effect on the hospitality segment during the first quarter of 2021 compared to 2020, as well as the impact of the pandemic on the Corporation's healthcare revenue in Q2 2020.

Consolidated EBITDA in the second quarter of 2021 increased by $2.1 million to $12.2 million compared to $10.1 million in the comparative period of 2020, and margin decreased by 3.6% to 23.2%. On a year-to-date basis, consolidated EBITDA increased by $8.5 million to $22.3 million compared to $13.8 million in the comparative period of 2020, and margin increased by 7.6% to 22.2%. The year-to-date increase is primarily related to higher revenues, impairment of assets of $5.5 million in the first quarter of 2020, restructuring costs and bad debts expense in 2020 of $1.6 million and $0.5 million respectively, and offset by lower government assistance received in the Canadian division from $5.6 million received in 2020 to $0.9 million in 2021. Consolidated adjusted EBITDA increased in the year to $17.8 million from $14.7 million in 2020, which is an increase of 21.2%. The consolidated adjusted EBITDA margin increased to 17.7% in 2021 compared to 15.5% in 2020.

The UK division also received government assistance during 2021 in the amount of £2.1 million ($3.7 million) which has been netted against the respective source of the expense. Beginning in the third quarter of 2020 onwards, government assistance received by the UK division through the CJRS required that companies share in the cost of the program and as a result the impact to EBITDA during 2021 was a cost of £114k ($197k), which represents the UK division's contribution for hours and certain benefits.

Net earnings increased by $6.8 million or 381.1% from $-1.8 million in 2020 to $5.0 million in 2021, and net earnings as a percentage of revenue increased by 6.9% to 5.0% in 2021 from -1.9% in 2020. The change in net earnings is primarily related to the flow through items in EBITDA discussed above, lower finance costs related to the revolving credit facility, and higher income tax expense.

Operating Expenses

Wages and benefits in the second quarter of 2021 increased by $7.7 million to $18.8 million compared to $11.1 million in the comparative period of 2020, and as a percentage of revenue increased by 6.2% to 35.7%. On a year-to-date basis, wages and benefits increased by $2.5 million to $36.3 million compared to $33.8 million in the comparative period of 2020, and as a percentage of revenue increased by 0.6% to 36.2%. The increase as a percentage of revenue is primarily related to a significant decrease in government assistance received in the Canadian division by $4.0 million to an amount of $0.8 million in 2021, escalating minimum wage rates, offset by improvements in labour efficiencies and restructuring costs of $1.1 million incurred in the prior year related to COVID-19 volumes.

Linen in the second quarter of 2021 increased by $1.5 million to $6.7 million compared to $5.2 million in the comparative period of 2020, and as a percentage of revenue decreased by 1.2% to 12.7%. On a year-to-date basis, linen increased by $0.9 million to $12.8 million compared to $11.9 million in the comparative period of 2020, and as a percentage of revenue remained relatively constant at 12.7%. The increase in spending is primarily related to the additional healthcare and hospitality volumes processed compared to the prior year.

Utilities in the second quarter of 2021 increased by $0.8 million to $2.9 million compared to $2.1 million in the comparative period of 2020, and as a percentage of revenue remained constant at 5.6%. On a year-to-date basis, utilities increased by $0.1 million to $5.8 million compared to $5.7 million in the comparative period of 2020, and as a percentage of revenue decreased by 0.3% to 5.7%. The decrease as a percentage of revenue is primarily related to scales of efficiencies, lower commodity costs, and operational improvements that have been implemented.

Delivery in the second quarter of 2021 increased by $1.8 million to $5.3 million compared to $3.5 million in the comparative period of 2020, and as a percentage of revenue increased by 0.6% to 10.0%. The increase as a percentage of revenue for Q2 2021 is primarily related to increased levels of government assistance received in Q2 2020. On a year-to-date basis, delivery decreased by $0.6 million to $9.9 million compared to $10.5 million in the comparative period of 2020, and as a percentage of revenue decreased by 1.2% to 9.9%. The decrease as a percentage of revenue is primarily related 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 in the second quarter of 2021 increased by $0.5 million to $1.0 million compared to $0.5 million in the comparative period of 2020, and as a percentage of revenue increased by 0.6% to 1.9%. On a year-to-date basis, occupancy costs increased by $0.2 million to $1.9 million compared to $1.7 million in the comparative period of 2020, and as a percentage of revenue remained relatively constant at 1.9%. 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 in the second quarter of 2021 increased by $0.7 million to $1.9 million compared to $1.2 million in the comparative period of 2020, and as a percentage of revenue increased by 0.3% to 3.6%. On a year-to-date basis, materials and supplies increased by $0.3 million to $3.7 million compared to $3.4 million in the comparative period of 2020, and as a percentage of revenue remained relatively constant at 3.7%.

Repairs and maintenance in the second quarter of 2021 increased by $0.3 million to $1.7 million compared to $1.4 million in the comparative period of 2020, and as a percentage of revenue decreased by 0.6% to 3.2%. On a year-to-date basis, repairs and maintenance decreased by $0.2 million to $3.4 million compared to $3.6 million in the comparative period of 2020, and as a percentage of revenue decreased by 0.4% to 3.4%. The decrease as a percentage of revenue is primarily related to the related to the timing of maintenance activities, and fixed costs that remain constant regardless of the reduction in volume resulting from the COVID-19 pandemic and timing of maintenance activities.

Corporate costs in the second quarter of 2021 decreased by $0.3 million to $2.1 million compared to $2.4 million in the comparative period of 2020, and as a percentage of revenue decreased by 2.2% to 4.1%. On a year-to-date basis, corporate costs decreased by $0.7 million to $4.3 million compared to $5.0 million in the comparative period of 2020, and as a percentage of revenue decreased by 1.0% to 4.3%. The decrease as a percentage of revenue is primarily related to a 2020 provision for bad debt expense of $0.5 million, 2020 restructuring costs of $0.5 million, the timing of initiatives to support the Corporation's growth and business strategies across the plants, and offset by lower 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

During Q2 2021, cash generated by operating activities was $3.0 million compared to $6.3 million in Q2 2020. On a year-to-date basis, cash generated by operating activities was $11.6 million compared to $17.9 million in 2020. The change in cash from operations is primarily due to the change in working capital items driven mainly from the impact of the COVID-19 pandemic, and the timing of income tax payables and collection of cash receipts from customers. The Corporation's capital structure includes working capital, a committed revolving credit facility and share capital. We continuously monitor actual and forecast cash flows and monitor the availability on our committed credit facility. Management believes the unutilized balance of $57.5 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 Q2 2021, cash used in financing activities was $1.1 million compared to $3.0 million in Q2 2020. On a year-to-date basis, cash used in financing activities was $10.0 million compared to $15.6 million in 2020. Financing activities consisted of net repayment of the revolving credit facility, dividends paid to Shareholders and principal elements of lease payments.

During Q2 2021, cash used in investing activities was $2.2 million compared to $1.4 million in Q2 2020. On a year-to-date basis, cash used in investing activities was $3.4 million compared to $4.3 million in 2020. 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	Remainder of 2021	2022 to 2023	2024 to 2025	Subsequent
Long-term debt	$ 40,696	-	-	40,696	-
Lease liabilities	$ 67,828	5,095	16,389	13,620	32,724
Utility commitments	$ 3,317	3,317	-	-	-
Linen purchase obligations	$ 8,398	8,398	-	-	-
Property, plant and equipment commitments	$ 7,715	7,715	-	-	-

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)	Six Months Ended June 30, 2021	Years Ended December 31, 2020
Cash and cash equivalents	$ (639)	$ (2,416)
Long-term debt (excludes lease liabilities)	40,696	40,657
Shareholders' equity	188,258	189,504
Total capital	$ 228,315	$ 227,745
Debt to total capital (see *Terminology* for definition)	17.8%	17.9%

For the period ended June 30, 2021, the Corporation had a debt to total capital of 17.8%, unused revolving credit facility of $57.5 million and has not incurred any events of default under the terms of its credit facility.

As at June 30, 2021, the Corporation had net working capital of $31.7 million compared to its working capital position of $27.9 million at December 31, 2020. The increase in working capital is primarily attributable to a decrease in working capital requirements driven mainly from the impact of the COVID-19 pandemic, and the timing of income tax payables.

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

			2021		2020	
Fiscal Period	Payment Date	# of Shares outstanding	Amount per Share	Total Amount (1)(3)	Amount per Share	Total Amount (2)(4)
January	February 12	10,676,889	$ 0.10000	$ 1,068	$ 0.10000	$ 1,060
February	March 15	10,676,889	0.10000	1,068	0.10000	1,060
March	April 15	10,676,889	0.10000	1,068	0.10000	1,060
Q1			$ 0.30000	$ 3,203	$ 0.30000	$ 3,181
April	May 14	10,676,889	$ 0.10000	$ 1,068	$ 0.10000	$ 1,060
May	June 15	10,718,810	0.10000	1,072	0.10000	1,068
June	July 15	10,718,810	0.10000	1,072	0.10000	1,068
Q2			$ 0.30000	$ 3,211	$ 0.30000	$ 3,196
YTD			$ 0.60000	$ 6,415	$ 0.60000	$ 6,377

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

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

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

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

For the three months ended June 30, 2021, the Corporation declared a $0.300 per Common Share dividend compared to $0.713 per Common Share of Distributable Cash Flow (see "*Terminology*") and actual payout ratio of 42.2%. On a year-to-date basis, the Corporation declared a $0.600 per Common Share dividend compared to $1.219 per Common Share of Distributable Cash Flow and actual payout ratio of 49.4%.

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)	2021		2020				2019	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Cash (used in) provided by operating activities	$ 3,047	$ 8,542	$ 25,023	$ (504)	$ 6,289	$ 11,588	$ 11,555	$ 19,816
Deduct (add):								
Net changes in non-cash working capital items(1)	(7,022)	692	16,111	(13,724)	(2,926)	3,011	1,534	7,463
Share-based compensation expense	439	506	410	693	189	507	404	427
Maintenance capital expenditures(2)	275	112	(11)	35	280	328	1,072	1,352
Principal elements of lease payments	1,742	1,852	1,627	1,442	1,487	1,666	1,501	1,806
Distributable cash flow	$ 7,613	$ 5,380	$ 6,886	$ 11,050	$ 7,259	$ 6,076	$ 7,044	$ 8,768
Dividends declared	3,211	3,203	3,203	3,203	3,196	3,181	3,181	3,181
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300
Payout ratio(3)	42.2%	59.5%	46.5%	29.0%	44.0%	52.4%	45.2%	36.3%
Weighted average shares outstanding during the period, basic	10,603	10,597	10,575	10,563	10,551	10,539	10,521	10,511
Weighted average shares outstanding during the period, diluted	10,673	10,663	10,658	10,667	10,627	10,591	10,588	10,584
Trailing-twelve months ("TTM")								
Distributable cash flow	30,929	30,575	31,271	31,429	29,147	30,060	29,608	28,375
Dividends	12,820	12,805	12,783	12,761	12,739	12,720	12,707	12,694
Payout ratio(3)	41.4%	41.9%	40.9%	40.6%	43.7%	42.3%	42.9%	44.7%

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

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

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

OUTSTANDING SHARES

As at June 30, and August 5, 2021, the Corporation had 10,718,810 Common Shares outstanding. Basic and diluted weighted average number of Common Shares outstanding for the three months ended June 30, 2021 were 10,603,415 and 10,672,659, respectively (10,551,443 and 10,626,893, respectively, for the comparative 2020 interim periods).

In accordance with the Corporation's Long Term Incentive ("LTI") plan and in conjunction with the performance of the Corporation in the 2020 fiscal year, on April 23, 2021 the Compensation, Nominating and Corporate Governance Committee approved LTI compensation of $1.8 million (2020 – $1.8 million) to be paid as Common Shares issued from treasury. As at June 30, 2021, the value of the Common Shares held by the LTI custodian was $4.7 million (December 31, 2020 – $3.1 million) which was comprised of 108,754 in unvested Common Shares (December 31, 2020 – 79,423) with a nil aggregate cost (December 31, 2020 – $nil).

As at August 5, 2021 there were 10,718,810 Common Shares issued and outstanding including 108,754 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 three month period ended June 30, 2021, the Corporation incurred fees totaling $34.5 compared to $34.5 for the same period of fiscal 2020. For the six months ended June 30, 2021, the Corporation incurred such fees totaling $69.0 compared to $69.0 for the same period of fiscal 2020.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements, in conformity with IFRS, requires K-Bro to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Management regularly evaluates these estimates and assumptions which are based on past experience and other factors that are deemed reasonable under the circumstances. This involves varying degrees of judgment and uncertainty and, therefore, amounts currently reported in the financial statements could differ in the future. Further to those areas discussed in the Corporation's 2020 audited financial statements and annual MD&A, determining the lease term and incremental borrowing rates under IFRS 16 requires critical judgments as well as assumptions that have been incorporated into any asset impairment testing models.

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 interim condensed 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.

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 June 30,		Six Months Ended June 30,	
(thousands)	**2021**	2020	**2021**	2020[1]
Net earnings (loss)	**$ 3,411**	$ 1,613	**$ 5,045**	$ (1,795)
Add:				
Income tax expense (recovery)	**1,183**	798	**2,005**	(325)
Finance expense	**901**	791	**1,766**	1,984
Depreciation of property, plant and equipment	**5,862**	5,891	**11,740**	12,006
Amortization of intangible assets	**848**	962	**1,710**	1,928
EBITDA	**$ 12,205**	$ 10,055	**$ 22,266**	$ 13,798

(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 June 30,					
(thousands)	Canadian Division 2021	UK Division 2021	**2021**	Canadian Division 2020	UK Division 2020	2020
EBITDA	$ 11,422	$ 783	**$ 12,205**	$ 11,574	$ (1,519)	$ 10,055
Add back IFRS 16 Adjustments:						
Delivery	(325)	(449)	**(774)**	(329)	(423)	(752)
Occupancy costs	(1,152)	(325)	**(1,477)**	(1,105)	(640)	(1,745)
EBITDA without adoption of IFRS 16	$ 9,945	$ 9	**$ 9,954**	$ 10,140	$ (2,582)	$ 7,558
Add back non-reoccuring items:						
Impairment of assets	-	-	**-**	-	-	-
Adjusted EBITDA without adoption of IFRS 16	$ 9,945	$ 9	**$ 9,954**	$ 10,140	$ (2,582)	$ 7,558

	Six Months Ended June 30,					
(thousands)	Canadian Division 2021	UK Division 2021	**2021**	Canadian Division 2020	UK Division 2020	2020
EBITDA	$ 22,380	$ (114)	**$ 22,266**	$ 14,368	$ (570)	$ 13,798
Add back IFRS 16 Adjustments:						
Delivery	(668)	(923)	**(1,591)**	(687)	(820)	(1,507)
Occupancy costs	(2,259)	(643)	**(2,902)**	(2,209)	(931)	(3,140)
EBITDA without adoption of IFRS 16	$ 19,453	$ (1,680)	**$ 17,773**	$ 11,472	$ (2,321)	$ 9,151
Add back non-reoccuring items:						
Impairment of assets	-	-	**-**	5,516	-	5,516
Adjusted EBITDA without adoption of IFRS 16	$ 19,453	$ (1,680)	**$ 17,773**	$ 16,988	$ (2,321)	$ 14,667

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.

	Three Months Ended June 30,					
(thousands)	Canadian Division 2021	UK Division 2021	2021	Canadian Division 2020	UK Division 2020	2020
Net earnings (loss)	$ 4,460	$ (1,049)	$ 3,411	$ 4,460	$ (2,847)	$ 1,613
Add back IFRS 16 Adjustments:						
Delivery	(325)	(449)	(774)	(329)	(423)	(752)
Occupancy costs	(1,152)	(325)	(1,477)	(1,105)	(640)	(1,745)
Depreciation of property, plant and equipment	1,147	674	1,821	1,091	544	1,635
Finance expense	370	144	514	373	105	478
Income tax (recovery) expense	(10)	(7)	(17)	(8)	71	63
Net earnings (loss) without adoption of IFRS 16	$ 4,490	$ (1,012)	$ 3,478	$ 4,482	$ (3,190)	$ 1,292
Add back non-reoccuring items (net of income taxes):						
Impairment of assets	-	-	-	-	-	-
Adjusted net earnings (loss) without adoption of IFRS 16	$ 4,490	$ (1,012)	$ 3,478	$ 4,482	$ (3,190)	$ 1,292
Weighted average number of shares outstanding:						
Basic	10,603,415	10,603,415	10,603,415	10,551,443	10,551,443	10,551,443
Diluted	10,672,659	10,672,659	10,672,659	10,626,893	10,626,893	10,626,893
Adjusted net earnings (loss) without adoption of IFRS 16 per share:						
Basic	$0.423	($0.095)	$0.328	$0.425	($0.302)	$0.122
Diluted	$0.421	($0.095)	$0.326	$0.422	($0.300)	$0.122

	Six Months Ended June 30,					
(thousands)	Canadian Division 2021	UK Division 2021	2021	Canadian Division 2020	UK Division 2020	2020
Net earnings (loss)	$ 8,617	$ (3,572)	$ 5,045	$ 1,988	$ (3,783)	(1,795)
Add back IFRS 16 Adjustments:						
Delivery	(668)	(923)	(1,591)	(687)	(820)	(1,507)
Occupancy costs	$ (2,259)	$ (643)	(2,902)	(2,209)	(931)	(3,140)
Depreciation of property, plant and equipment	$ 2,241	$ 1,374	3,615	2,204	1,201	3,405
Finance expense	$ 719	$ 294	1,013	757	206	963
Income tax (recovery) expense	$ (8)	$ (17)	(25)	(17)	59	42
Net earnings (loss) without adoption of IFRS 16	$ 8,642	$ (3,487)	$ 5,155	$ 2,036	$ (4,068)	$ (2,032)
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	$ 8,642	$ (3,487)	$ 5,155	$ 6,345	$ (4,068)	$ 2,277
Weighted average number of shares outstanding:						
Basic	10,600,457	10,600,457	10,600,457	10,545,450	10,545,450	10,545,450
Diluted	10,661,731	10,661,731	10,661,731	10,609,815	10,609,815	10,609,815
Adjusted net earnings (loss) without adoption of IFRS 16 per share:						
Basic	$0.815	($0.329)	$0.486	$0.602	($0.386)	$0.216
Diluted	$0.811	($0.327)	$0.484	$0.598	($0.383)	$0.215

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 June 30, 2021, the Corporation has not entered into any off balance sheet arrangements.

NEW ACCOUNTING PRONOUNCEMENTS ADOPTED

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

Interest Rate Benchmark Reform – Phase 2

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

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

- Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction, that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023.
- Amendments to IFRS 3, Business Combinations - Updating a Reference to the Conceptual Framework, updating a reference to the Conceptual Framework.
- Amendments to IAS 1, Presentation of Financial Statements - Disclosure of Accounting Policies, requiring entities to disclose material, instead of significant, accounting policy information.
- Amendments to IAS 1, Presentation of Financial Statements - Classification of Liabilities as Current or Noncurrent, clarifying requirements for the classification of liabilities as non-current.
- Amendments to IAS 8, Accounting Policies - Changes in Accounting Estimates and Errors, clarifying the definition of "accounting policies" and "accounting estimates".
- Amendments to IAS 16, Property, Plant and Equipment: Proceeds before intended use, prohibiting reducing the cost of property, plant, and equipment by proceeds while bringing an asset to capable operations.
- Amendments to IFRS 16 - COVID-19 rent concession amendment – extension amended to extend the date of the practical expedient from June 30, 2021 to June 30, 2022 (original amendment provided lessees with an optional practical expedient from assessing whether a rent concession related to COVID-19 is a lease modification). Effective for years beginning on or after April 1, 2021.
- IAS 37, Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts, specifying costs an entity should include in determining the "cost of fulfilling" a potential onerous contract.

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

CRITICAL RISKS AND UNCERTAINTIES

As at June 30, 2021 there are no material changes in the Corporation’s risks or risk management activities since December 31, 2020, other than in respect of the impact of the COVID-19 pandemic which is discussed in detail in this MD&A and accompanying unaudited consolidated interim financial statements. 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: dependence on long-term contracts and the associated renewal risk thereof; the effects of market volatility and uncertainty; potential future tax changes; the competitive environment; our ability to acquire and successfully integrate and operate additional businesses; utility costs; the labour markets; the fact that our credit facility imposes numerous covenants and encumbers assets; and environmental matters.

For a discussion of these risks and other risks associated with an investment in 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.

Internal Controls over Financial Reporting

There were no changes in internal controls over financial reporting ("ICFR") during the three month period ended June 30, 2021 that materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

The Corporation's CEO and CFO have determined that there is not a material weakness in the design of disclosure controls and procedures and internal controls over financial reporting which existed as at June 30, 2021.

A discussion of the internal controls over financial reporting can be found under the MD&A that accompany the audited consolidated financial statements for the year ended December 31, 2020.

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 »).