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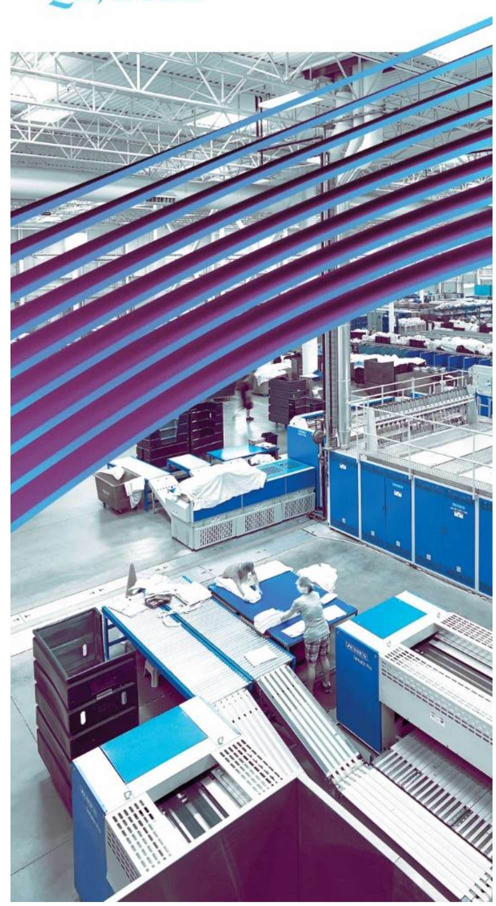
MANAGEMENT'S DISCUSSION & ANALYSIS

Q2, 2022



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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, 2022 and the audited Consolidated Financial Statements, as well as the MD&A, for the year ended December 31, 2021. 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 8, 2022.

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

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

These statements are not guarantees of future performance and are based on management's estimates and assumptions that are subject to risks and uncertainties, which could cause K-Bro's actual performance and financial results in future periods to differ materially from the forward-looking information contained in this MD&A. These risks and uncertainties include, among other things: (i) risks associated with acquisitions, including the possibility of undisclosed material liabilities; (ii) K-Bro's competitive environment; (iii) utility costs, minimum wage legislation and labour costs; (iv) K-Bro's dependence on long-term contracts with the associated renewal risk including, without limitation, in connection with the settlement of definitive documentation in respect there of; (v) increased capital expenditure requirements; (vi) reliance on key personnel; (vii) changing trends in government outsourcing; (viii) changes or proposed changes to minimum wage laws in Ontario, British Columbia, Alberta, Quebec, Saskatchewan and the United Kingdom (the "UK"); (ix) the availability of future financing; (x) textile demand; (xi) the adverse impact of the COVID-19 pandemic on the Corporation, which has been significant to date and which we believe will continue to be significant for the short to medium term; (xii) availability and access to labour; (xiii) rising wage rates in all jurisdictions the Corporation operates and (ix) foreign currency risk. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information include: (i) volumes and pricing assumptions; (ii) expected impact of labour cost initiatives; (iii) frequency of one-time costs impacting quarterly and annual financial results; (iv) foreign exchange rates; (v) the level of capital expenditures and (vi) the expected impact of the COVID-19 pandemic on the Corporation. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements regarding forward-looking information included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A. Forward-looking information included in this MD&A includes the expected annual healthcare revenues to be generated from the Corporation's contracts with new customers, calculation of costs, including one-time costs impacting the quarterly financial results, anticipated future capital spending and statements with respect to future expectations on margins and volume growth, as well as statements related to the impact of the COVID-19 pandemic on the Corporation.

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

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

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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 temporarily shut down its facility in Perth as a result of the COVID-19 pandemic. It is anticipated that this facility will re-open in the third quarter of 2022.

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 influence of COVID-19 throughout Canada and the UK, at least in the short-term to medium-term, is expected to have a negative impact on the Corporation's business.
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> *Outsourcing and Privatization* – In Canada, healthcare institutions and regional authorities are facing funding pressures and must continually evaluate the allocation of scarce resources. Consequently, there are often advantages to healthcare institutions in outsourcing the processing of healthcare linen to private sector laundry companies such as K-Bro because of the economies of scale and significant management expertise that can be provided on a more comprehensive and cost-effective basis than customers can achieve in operating their own laundry facilities.
>
> *Fragmentation* – Most cities have at least one and sometimes several private sector competitors operating in the healthcare and hospitality sectors of the laundry and linen services industry. Management believes that the presence of these operators provides consolidation opportunities for larger industry participants with the financial means to complete acquisitions. Management evaluates M&A opportunities on an ongoing basis and looks to leverage the Corporation's strong liquidity position, balance sheet and access to the capital markets to execute on these opportunities as they arise.

Customers 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.

SELECTED QUARTERLY FINANCIAL INFORMATION

(In reporting currency $ Canadian)

	Three Months Ended June 30,								
(thousands, except percentages and per share amounts)	Canadian Division 2022	UK Division 2022	2022	Canadian Division 2021	UK Division 2021	2021	Canadian Division 2020	UK Division 2020	2020
Revenue	$ 53,283	$ 17,607	$ 70,890	$ 44,156	$ 8,519	$ 52,675	$ 35,353	$ 2,167	$ 37,520
EBITDA[1]	8,071	1,612	9,683	11,422	783	12,205	11,574	(1,519)	10,055
Net earnings (loss)	1,669	(53)	1,616	4,460	(1,049)	3,411	4,460	(2,847)	1,613
Net earnings (loss) per share:									
Basic	$ 0.157	$ (0.005)	$ 0.152	$ 0.421	$ (0.099)	$ 0.322	$ 0.423	$ (0.270)	$ 0.153
Diluted	$ 0.156	$ (0.005)	$ 0.151	$ 0.418	$ (0.098)	$ 0.320	$ 0.420	$ (0.268)	$ 0.152
Total assets			$ 329,677			$ 326,157			$ 330,372
Long-term debt (excludes lease liabilities)			45,224			$ 40,696			56,416
Weighted average number of shares outstanding:									
Basic			10,649,741			10,603,415			10,551,443
Diluted			10,716,073			10,672,659			10,626,893

	Six Months Ended June 30,								
(thousands, except percentages and per share amounts)	Canadian Division 2022	UK Division 2022	2022	Canadian Division 2021	UK Division 2021	2021	Canadian Division 2020	UK Division 2020	2020
Revenue	$ 102,517	$ 29,807	$ 132,324	$ 88,858	$ 11,431	$ 100,289	$ 79,064	$ 15,731	$ 94,795
EBITDA[1]	15,590	1,155	16,745	22,380	(114)	22,266	14,368	(570)	13,798
Net earnings (loss)	3,098	(1,928)	1,170	8,617	(3,572)	5,045	1,988	(3,783)	(1,795)
Net earnings (loss) per share:									
Basic	$ 0.291	$ (0.181)	$ 0.110	$ 0.813	$ (0.337)	$ 0.476	$ 0.189	$ (0.359)	$ (0.170)
Diluted	$ 0.289	$ (0.180)	$ 0.109	$ 0.808	$ (0.335)	$ 0.473	$ 0.187	$ (0.357)	$ (0.169)
Total assets			$ 329,677			$ 326,157			$ 330,372
Long-term debt (excludes lease liabilities)			45,224			$ 40,696			56,416
Weighted average number of shares outstanding:									
Basic			10,645,467			10,600,457			10,545,450
Diluted			10,703,335			10,661,731			10,609,815

(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”.

SUMMARY OF INTERIM RESULTS, AND KEY EVENTS

Net earnings for the second quarter of 2022 was $1.6 million or $0.15 per Common Share (basic). Cash flow from operating activities was $3.8 million and distributable cash flow was $5.4 million. Revenue increased in the second quarter of 2022 to $70.9 million or by 34.6% compared to 2021.

EBITDA (see "Terminology") decreased in the second quarter of 2022 to $9.7 million or by 20.7% compared to $12.2 million in 2021. On a consolidated basis, EBITDA margin decreased in the second quarter from 23.2% in 2021 to 13.7% in 2022.

For the Canadian division, the EBITDA margin in the second quarter decreased to 15.1% in 2022 from 25.9% in 2021. The decrease in margin is primarily related to the government assistance received in the Canadian division from $0.5 million received in 2021 to nil in 2022, additional labour costs incurred due to temporarily tight labour markets in certain cities in which we operate, the repricing of the Corporation's existing business in Edmonton and Calgary with AHS which took effect on August 1, 2021 and higher delivery costs related to increased fuel rates and the AHS transition.

For the UK division, in the second quarter the EBITDA margin decreased to 9.1% in 2022 from 9.2% in 2021. The decrease in margin is primarily related to restrictions from the COVID-19 pandemic being eased which drove stronger hospitality client activity, offset by a significant increase in natural gas costs.

Key events in our markets are summarized below.

3sHealth Contract Extension

During the quarter, the Corporation extended its existing contract with 3sHealth for an additional six years to May 31, 2031 on terms that are consistent with the existing contract.

Alberta Contract Award

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

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

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

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 is serviced from K-Bro's existing state-of-the-art facilities in Edmonton and Calgary. The transition of new rural business from AHS commenced in late Q3 2021 and was completed in early April 2022.

Revolving Credit Facility

On July 18, 2022, the corporation completed an amendment to its existing revolving credit facility, which extended the agreement from July 31, 2024 to July 31, 2026.

Capital Investment Plan

For fiscal 2022, the Corporation's planned capital spending is expected to be approximately $5.0 million on a consolidated basis. This guidance includes both strategic and maintenance capital requirements to support existing base business in both Canada and the UK and does not take into account amounts accrued in 2021 that are to be paid in 2022, nor does this account for the projected $10.0 million in additional capital expenditures to support 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 Risk and Geopolitical Stability

The ongoing COVID-19 pandemic has caused world governments to institute travel restrictions both in and out of and within Canada and the UK (most of which were lifted in mid-2022), which has had, and is expected to continue to have an 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 reduced occupancy rates, consolidated results of operations will be impacted. The extent to which the outbreaks affects our earnings will depend on the length of time the hospitality industry continues to experience reduced occupancy rates. Earnings will continue to be particularly affected if we continue to experience reductions in travel and reduced hospitality occupancy rates.

In addition to this, certain geopolitical events and other factors have resulted in rising and unstable commodity costs for key inputs such as natural gas and diesel. In the event these cost increases exceed price increase mechanisms this could have an adverse effect on our business prospects and results of operations.

The Corporation is also facing supply chain uncertainty for specialized equipment, parts and other key input costs. As a result of these circumstances, 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.

Month	Healthcare Revenue Change (2021 compared to 2019)	Hospitality Revenue Change (2021 compared to 2019)	Consolidated Revenue Change (2021 compared to 2019)	Month	Healthcare Revenue Change (2022 compared to 2019)	Hospitality Revenue Change (2022 compared to 2019)	Consolidated Revenue Change (2022 compared to 2019)
January	25%	-80%	-14%	January	24%	-37%	1%
February	26%	-82%	-19%	February	28%	-26%	5%
March	28%	-80%	-20%	March	30%	-10%	12%
Q1 2021 compared to Q1 2019 (Jan to March)	**26%**	**-81%**	**-18%**	**Q1 2022 compared to Q1 2019 (Jan to March)**	**27%**	**-23%**	**6%**
April	24%	-81%	-22%	April	24%	-7%	11%
May	21%	-69%	-19%	May	26%	-3%	13%
June	22%	-49%	-13%	June	26%	-8%	9%
Q2 2021 compared to Q2 2019 (April to June)	**23%**	**-66%**	**-18%**	**Q2 2022 compared to Q2 2019 (April to June)**	**25%**	**-6%**	**11%**
July	16%	-40%	-11%	July			
August	11%	-30%	-9%	August			
September	12%	-28%	-8%	September			
Q3 2021 compared to Q3 2019 (July to September)	**13%**	**-33%**	**-9%**	**Q3 2022 compared to Q3 2019 (July to September)**			
October	12%	-28%	-5%	October			
November	19%	-23%	1%	November			
December	20%	-23%	1%	December			
Q4 2021 compared to Q4 2019 (October to December)	**17%**	**-25%**	**-1%**	**Q4 2022 compared to Q4 2019 (October to December)**			
YTD	**20%**	**-49%**	**-11%**	**YTD**	**26%**	**-14%**	**9%**

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

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

Based on management's review, there were no CGUs as at June 30, 2022 showing signs of impairment that were not already considered at December 31, 2021. 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.

OUTLOOK

The Corporation's healthcare segment continues to outperform relative to historical levels. For the hospitality segment, management expects that the current trend towards loosening restrictions on international border crossings and increasing business/leisure travel will continue to support the strong recovery momentum in hospitality revenues experienced since mid-2021.

For the last few quarters, management has been focused on operational efficiencies and the transition of new AHS business, which was completed in early April 2022. Over the balance of 2022, management will continue to focus on optimizing plant efficiencies associated with the transition of new AHS business.

From an input cost perspective, since early March 2022, particularly in the UK, the Corporation has faced significant volatility in the cost of natural gas due to current geopolitical issues. In April 2022, to mitigate this instability, the Corporation locked in natural gas supply rates in the UK until December 2024. Based on these locked in rates we anticipate natural gas as a percent of revenue to increase 2 percentage points from historical levels for 2022. We expect to mitigate these cost increases with price increases to our customers although there could be some delay.

The Corporation is also facing pressure from a labour input cost perspective due to the lack of workforce availability. Management is focused on implementing strategies to recruit and hire new staff as well as existing labour force retention and has achieved some success in certain markets but is still focusing efforts on other markets.

Management is confident in their ability to return to historical 2019 margin levels once we gain efficiencies from the AHS transition however this will also be dependent on our ability to attract and retain staff in each of the markets in which we operate.

Management continues to evaluate opportunities to accelerate growth through M&A opportunities in both North America and Europe, which remain highly fragmented. K-Bro will look to leverage its strong liquidity position, balance sheet and access to the capital markets to execute on these opportunities, should they arise. For further information about the impact of the COVID-19 pandemic on our business, see the "Summary of 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)		Canadian Division	UK Division		Canadian Division	UK Division	
Category	Indicator	2022	2022	**2022**	2021	2021	2021
Growth	EBITDA [1]	-29.3%	105.9%	**-20.7%**	-1.3%	151.5%	21.4%
	Revenue	20.7%	106.7%	**34.6%**	24.9%	293.1%	40.4%
	Distributable cash flow [2]			**-28.5%**			4.9%
Profitability	EBITDA [1]	$ 8,071	$ 1,612	**$ 9,683**	$ 11,422	$ 783	$ 12,205
	EBITDA margin	15.1%	9.2%	**13.7%**	25.9%	9.2%	23.2%
	Net earnings (loss)	$ 1,669	$ (53)	**$ 1,616**	$ 4,460	$ (1,049)	$ 3,411
Stability	Debt to total capital [3]			**20.7%**			17.8%
	Unutilized line of credit			**$ 52,483**			$ 57,541
	Cash on hand			**$ 4,512**			$ 639
	Payout ratio			**59.3%**			42.2%
	Dividends declared per share			**$ 0.300**			$ 0.300
Cost containment	Wages and benefits	41.4%	36.4%	**40.1%**	34.9%	39.6%	35.7%
	Utilities	5.9%	16.4%	**8.5%**	5.1%	7.9%	5.6%
	Delivery	13.2%	14.3%	**13.4%**	9.0%	15.1%	10.0%
	Expenses included in EBITDA	84.9%	90.8%	**86.3%**	74.1%	90.8%	76.8%

		Six Months Ended June 30,					
(thousands, except percentages and per share amounts)		Canadian Division	UK Division		Canadian Division	UK Division	
Category	Indicator	2022	2022	**2022**	2021	2021	2021
Growth	EBITDA [1]	-30.3%	-1113.2%	**-24.8%**	55.8%	-80.0%	61.4%
	Revenue	15.4%	160.8%	**31.9%**	12.4%	-27.3%	5.8%
	Distributable cash flow [2]			**-30.6%**			-2.6%
Profitability	EBITDA [1]	$ 15,590	$ 1,155	**$ 16,745**	$ 22,380	$ (114)	$ 22,266
	EBITDA margin	15.2%	3.9%	**12.7%**	25.2%	-1.0%	22.2%
	Net earnings (loss)	$ 3,098	$ (1,928)	**$ 1,170**	$ 8,617	$ (3,572)	$ 5,045
Stability	Debt to total capital [3]			**20.7%**			17.8%
	Unutilized line of credit			**$ 52,483**			$ 57,541
	Cash on hand			**$ 4,512**			$ 639
	Payout ratio			**71.4%**			49.4%
	Dividends declared per share			**$ 0.600**			$ 0.600
Cost containment	Wages and benefits	41.0%	37.2%	**40.1%**	35.1%	44.3%	36.2%
	Utilities	6.2%	17.7%	**8.8%**	5.3%	9.2%	5.7%
	Delivery	12.6%	16.2%	**13.4%**	9.0%	16.4%	9.9%
	Expenses included in EBITDA	84.8%	96.1%	**87.3%**	74.8%	101.0%	77.8%

(1) EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, finance expense, and depreciation and amortization). See "Terminology".
(2) Effective January 1, 2019, distributable cash flow includes the addition of principal elements of lease payments. This accounts for the change in accounting policies and the adoption of IFRS 16, where now the principal elements of lease payments flow through financing outflows opposed to operating cash flows.
(3) 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	2022		2021				2020	
(thousands, except percentages and per share amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Healthcare revenue	**43,523**	43,237	41,554	39,227	42,712	43,058	41,981	39,071
Hospitality revenue	**27,367**	18,197	20,656	22,266	9,963	4,556	8,376	12,368
Total revenue	**70,890**	61,434	62,210	61,493	52,675	47,614	50,357	51,439
Expenses included in EBITDA	**61,207**	54,372	53,282	49,896	40,470	37,553	38,630	38,720
EBITDA(1)	**9,683**	7,062	8,928	11,597	12,205	10,061	11,727	12,719
EBITDA as a % of revenue (EBITDA margin)	**13.7%**	11.5%	14.4%	18.9%	23.2%	21.1%	23.3%	24.7%
Depreciation and amortization	**6,570**	6,527	6,628	6,784	6,710	6,740	7,110	6,840
Finance expense	**1,001**	1,000	800	883	901	865	836	1,141
Earnings (loss) before income taxes	**2,112**	(465)	1,500	3,930	4,594	2,456	3,781	4,738
Income tax expense (recovery)	**496**	(19)	1	1,782	1,183	822	1,646	1,296
Net earnings (loss)	**1,616**	(446)	1,499	2,148	3,411	1,634	2,135	3,442
Net earnings (loss) as a % of revenue"	**2.3%**	-0.7%	2.4%	3.5%	6.5%	3.4%	4.2%	6.7%
Basic earnings (loss) per share	**0.152**	(0.042)	0.141	0.202	0.322	0.154	0.202	0.326
Diluted earnings (loss) per share	**0.151**	(0.042)	0.140	0.201	0.320	0.153	0.200	0.323
Total assets	**329,677**	325,041	332,519	330,494	326,157	316,101	323,811	338,591
Total long-term financial liabilities	**106,327**	99,302	102,617	97,582	100,306	89,343	95,555	113,278
Funds provided by (used in) operations	**3,838**	9,713	7,743	12,543	3,047	8,542	25,023	(504)
Long-term debt (excludes lease liabilities)	**45,224**	36,615	37,973	38,270	40,696	36,811	40,657	59,325
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".

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	2022		2021				2020	
(thousands, except percentages and per share amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Healthcare revenue	**41,936**	41,687	39,835	37,564	41,107	41,432	40,305	37,417
Hospitality revenue	**11,347**	7,547	8,211	8,605	3,049	3,270	4,268	5,628
Total revenue	**53,283**	49,234	48,046	46,169	44,156	44,702	44,573	43,045
Expenses included in EBITDA	**45,212**	41,715	40,258	36,659	32,734	33,744	32,622	30,999
EBITDA(1)	**8,071**	7,519	7,788	9,510	11,422	10,958	11,951	12,046
EBITDA as a % of revenue (EBITDA margin)	**15.1%**	15.3%	16.2%	20.6%	25.9%	24.5%	26.8%	28.0%
Net earnings	**1,669**	1,429	2,043	2,944	4,460	4,157	4,500	4,404
Net earnings as a % of revenue	**3.1%**	2.9%	4.3%	6.4%	10.1%	9.3%	10.1%	10.2%
Basic earnings per share	**0.157**	0.134	0.192	0.277	0.421	0.392	0.426	0.417
Diluted earnings per share	**0.156**	0.134	0.191	0.275	0.418	0.390	0.422	0.413

(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".

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 $)***	**2022**		**2021**				**2020**	
(thousands, except percentages and per share amounts)	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Healthcare revenue	**1,587**	1,550	1,719	1,663	1,605	1,626	1,676	1,654
Hospitality revenue	**16,020**	10,650	12,445	13,661	6,914	1,286	4,108	6,740
Total revenue	**17,607**	12,200	14,164	15,324	8,519	2,912	5,784	8,394
Expenses included in EBITDA	**15,995**	12,657	13,024	13,237	7,736	3,809	6,008	7,721
EBITDA[(1)]	**1,612**	(457)	1,140	2,087	783	(897)	(224)	673
EBITDA as a % of revenue (EBITDA margin)	**9.2%**	-3.7%	8.0%	13.6%	9.2%	-30.8%	-3.9%	8.0%
Net loss	**(53)**	(1,875)	(544)	(796)	(1,049)	(2,523)	(2,365)	(962)
Net loss as a % of revenue	**-0.3%**	-15.4%	-3.8%	-5.2%	-12.3%	-86.6%	-40.9%	-11.5%
Basic loss per share	**(0.005)**	(0.176)	(0.051)	(0.075)	(0.099)	(0.238)	(0.224)	(0.091)
Diluted loss per share	**(0.005)**	(0.175)	(0.051)	(0.074)	(0.098)	(0.237)	(0.222)	(0.090)

Quarterly Financial Information - UK Division ***(in local currency Sterling £)***	**2022**		**2021**				**2020**	
(thousands, except percentages and per share amounts)	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Healthcare revenue	**1,005**	912	1,011	959	935	931	974	961
Hospitality revenue	**10,153**	6,267	7,325	7,877	4,028	737	2,388	3,916
Total revenue	**11,158**	7,179	8,336	8,836	4,963	1,668	3,362	4,877
Expenses included in EBITDA	**10,134**	7,448	7,665	7,633	4,505	2,181	3,492	4,487
EBITDA[(1)]	**1,024**	(269)	671	1,203	458	(513)	(130)	390
EBITDA as a % of revenue (EBITDA margin)	**9.2%**	-3.7%	8.0%	13.6%	9.2%	-30.8%	-3.9%	8.0%
Net loss	**(32)**	(1,103)	(321)	(458)	(610)	(1,444)	(1,376)	(559)
Net loss as a % of revenue	**-0.3%**	-15.4%	-3.9%	-5.2%	-12.3%	-86.6%	-40.9%	-11.5%
Basic loss per share	**(0.003)**	(0.104)	(0.030)	(0.043)	(0.058)	(0.136)	(0.130)	(0.053)
Diluted loss per share	**(0.003)**	(0.103)	(0.030)	(0.043)	(0.057)	(0.135)	(0.129)	(0.052)

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

Revenue, Earnings and EBITDA

As a result of COVID-19 pandemic restrictions being eased, consolidated hospitality revenue for the three months ended June 30, 2022 increased by 174.7% over the comparable 2021 period, and the Corporation saw a 1.9% increase in consolidated healthcare revenue for an overall increase in consolidated revenue of 34.6%. On a year-to-date basis, consolidated revenue increased by 31.9% to $132.3 million compared to $100.3 million in the comparative period of 2021. In 2022, approximately 65.5% of K-Bro's consolidated revenue was generated from healthcare institutions, which is lower compared to 85.5% in 2021. This was primarily related to the COVID-19 pandemic's effect on the hospitality segment during the first quarter of 2021.

Consolidated EBITDA in the second quarter of 2022 decreased by $2.5 million to $9.7 million compared to $12.2 million in the comparative period of 2021, and margin decreased to 13.7%. On a year-to-date basis, consolidated EBITDA decreased by $5.6 million to $16.7 million compared to $22.3 million in the comparative period of 2021, and margin decreased to 12.7%. The decrease is primarily related to higher natural gas prices particularly in the UK, the additional labour costs incurred due to temporarily tight labour markets in certain cities in which we operate, repricing of the Corporation's existing business in Edmonton and Calgary with AHS which took effect on August 1, 2021, higher delivery costs related to the AHS transition as well as delivery route inefficiencies associated with the incremental hospitality volume and lower government assistance received in the Canadian division from $0.9 million received in 2021 to $0.0 million in 2022.

Net earnings decreased by $3.8 million or 76.8% from $5.0 million in 2021 to $1.2 million in 2022, and net earnings as a percentage of revenue decreased by 4.1 percentage points to 0.9% in 2022 from 5.0% in 2021. The change in net earnings is primarily related to the flow through items in EBITDA discussed above and higher finance costs related to the revolving credit facility.

Operating Expenses

Wages and benefits in the second quarter of 2022 increased by $9.7 million to $28.5 million compared to $18.8 million in the comparative period of 2021, and as a percentage of revenue increased by 4.4 percentage points to 40.1%. On a year-to-date basis, wages and benefits increased by $16.8 million to $53.1 million compared to $36.3 million in the comparative period of 2021, and as a percentage of revenue increased by 3.9 percentage points to 40.1%. The increase as a percentage of revenue is primarily related to escalating minimum wage rates, inefficiencies associated with lack of labour workforce availability and the transitioning of the new AHS business, and a $0.5 million decrease in government assistance received in the Canadian division.

Linen in the second quarter of 2022 increased by $0.9 million to $7.6 million compared to $6.7 million in the comparative period of 2021, and as a percentage of revenue decreased by 2.0 percentage points to 10.7%. On a year-to-date basis, linen increased by $2.2 million to $15.0 million compared to $12.8 million in the comparative period of 2021, and as a percentage of revenue decreased by 1.4 percentage points to 11.3%. The decrease as a percentage of revenue is primarily related to the changes to the mix of healthcare linen related to COVID-19 and higher hospitality volumes processed compared to the prior year.

Utilities in the second quarter of 2022 increased by $3.1 million to $6.0 million compared to $2.9 million in the comparative period of 2021, and as a percentage of revenue increased by 2.9 percentage points to 8.5%. On a year-to-date basis, utilities increased by $5.9 million to $11.7 million compared to $5.8 million in the comparative period of 2021, and as a percentage of revenue increased by 3.1 percentage points to 8.8%. The increase as a percentage of revenue is primarily related to the higher cost of natural gas particularly in the UK.

Delivery in the second quarter of 2022 increased by $4.2 million to $9.5 million compared to $5.3 million in the comparative period of 2021, and as a percentage of revenue increased by 3.4 percentage points to 13.4%. On a year-to-date basis, delivery increased by $7.9 million to $17.8 million compared to $9.9 million in the comparative period of 2021, and as a percentage of revenue increased by 3.5 percentage points to 13.4%. The increase as a percentage of revenue is primarily related to rising diesel prices and the costs associated with the new rural AHS business.

Occupancy costs in the second quarter of 2022 increased by $0.2 million to $1.2 million compared to $1.0 million in the comparative period of 2021, and as a percentage of revenue decreased by 0.2 percentage points to 1.7%. On a year to date basis, occupancy costs increased by $0.3 million to $2.2 million compared to $1.9 million in the comparative period of 2021, and as a percentage of revenue decreased by 0.2 percentage points to 1.7%. This includes fixed costs that remain relatively constant regardless of the volume processed.

Materials and supplies in the second quarter of 2022 increased by $1.0 million to $2.9 million compared to $1.9 million in the comparative period of 2021, and as a percentage of revenue increased by 0.5 percentage points to 4.1%. On a year to date basis, materials and supplies increased by $1.9 million to $5.6 million compared to $3.7 million in the comparative period of 2021, and as a percentage of revenue increased by 0.5 percentage points to 4.2%. This has been due to higher packaging costs related to the new AHS business, and higher chemical costs due to changes in the mix of volume resulting from the COVID-19 pandemic.

Repairs and maintenance in the second quarter of 2022 increased by $0.8 million to $2.5 million compared to $1.7 million in the comparative period of 2021, and as a percentage of revenue increased by 0.3 percentage points to 3.5%. On a year-to-date basis, repairs and maintenance increased by $1.3 million to $4.7 million compared to $3.4 million in the comparative period of 2021, and as a percentage of revenue remained relatively constant at 3.6%.

Corporate costs in the second quarter of 2022 increased by $0.9 million to $3.0 million compared to $2.1 million in the comparative period of 2021, and as a percentage of revenue increased by 0.1 percentage points to 4.2%. On a year-to-date basis, corporate costs increased by $1.3 million to $5.6 million compared to $4.3 million in the comparative period of 2021, and as a percentage of revenue remained relatively constant at 4.2%.

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 2022, cash generated by operating activities was $3.8 million compared to $3.0 million in Q2 2021. The change in cash from operations is primarily due to the change in working capital items driven mainly from the impact of higher hospitality volumes, and the timing of trade payables and collection of cash receipts from customers as well as procurement of linen and payment of income taxes payable. 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 $52.5 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 the second quarter of 2022, cash provided by financing activities was $3.6 million compared to $1.1 million used in financing activities in 2021. Financing activities consisted of net repayment of the revolving credit facility, dividends paid to Shareholders and principal elements of lease payments.

During the second quarter of 2022, cash used in investing activities was $3.9 million compared to $2.2 million in 2021. Investing activities are primarily related to the purchase of plant equipment.

Contractual Obligations

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

		Payments due by Period				
(thousands)		Total	Remainder of 2022	2023 to 2024	2025 to 2026	Subsequent
Long-term debt	$	45,224	-	45,224	-	-
Lease liabilities	$	65,136	4,609	16,479	13,986	30,062
Utility commitments	$	23,644	6,588	13,203	3,853	-
Linen purchase obligations	$	7,383	7,383	-	-	-
Property, plant and equipment commitments	$	756	756	-	-	-

The lease liabilities are secured by automotive equipment and plants and are more fully described in the Corporation's audited annual consolidated financial statements for the year ended December 31, 2021. The source of funds for these commitments will be from operating cash flow and, if necessary, the undrawn portion of the revolving credit facility.

Financial Position

(thousands, except percentages)	Six Months Ended June 30, 2022		Year Ended December 31, 2021	
Cash and cash equivalents	$	(4,512)	$	(1,110)
Long-term debt (excludes lease liabilities)		45,224		37,973
Shareholders' equity		177,398		186,401
Total capital	$	218,110	$	223,264
Debt to total capital (see *Terminology* for definition)		20.7%		17.0%

For the period ended June 30, 2022, the Corporation had a debt to total capital of 20.7%, unused revolving credit facility of $52.5 million and has not incurred any events of default under the terms of its credit facility.

As at June 30, 2022, the Corporation had net working capital of $35.2 million compared to its working capital position of $30.3 million at December 31, 2021. The increase in working capital is primarily attributable to the timing differences related to cash settlement of new plant equipment, income tax payments, and linen purchases.

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

DIVIDENDS

Fiscal Period	Payment Date	# of Shares outstanding	2022 Amount per Share	2022 Total Amount (1), (3)	2021 Amount per Share	2021 Total Amount (2), (4)
January	February 15	10,719,778	$ 0.10000	$ 1,072	$ 0.10000	$ 1,068
February	March 15	10,719,778	0.10000	1,072	0.10000	1,068
March	April 15	10,719,778	0.10000	1,072	0.10000	1,068
Q1			$ 0.30000	$ 3,216	$ 0.30000	$ 3,203
April	May 13	10,719,778	$ 0.10000	$ 1,072	$ 0.10000	$ 1,068
May	June 15	10,775,140	0.10000	1,078	0.10000	1,072
June	July 15	10,775,140	0.10000	1,078	0.10000	1,072
Q2			$ 0.30000	$ 3,227	$ 0.30000	$ 3,211
YTD			$ 0.60000	$ 6,441	$ 0.60000	$ 6,415

(1) The total amount of dividends declared was $0.10000 per share for a total of $1,071,881 per month for January - March 2022; when rounded in thousands, $3,216 of dividends were declared in Q1 2022.
(2) 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.
(3) The total amount of dividends declared was $0.10000 per share for a total of $1,071,881 for April 2022, $1,077,514 for May 2022, and $1,077,514 for June 2022. When rounded in thousands, $3,277 of dividends were declared in Q2 2022.
(4) The total amount of dividends declared was $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.

For the three months ended June 30, 2022, the Corporation declared a $0.300 per Common Share dividend compared to $0.5076 per Common Share of Distributable Cash Flow (see "*Terminology*"). The actual payout ratio was 59.3%.

The Corporation's policy is to pay dividends to Shareholders from its available distributable cash flow while considering requirements for capital expenditures, working capital, growth capital and other reserves considered advisable by the 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)	2022		2021				2020	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Cash provided by (used in) operating activities	**$ 3,838**	$ 9,713	$ 7,743	$ 12,543	$ 3,047	$ 8,542	$ 25,023	$ (504)
Deduct (add):								
Net changes in non-cash working capital items[1]	**(4,929)**	3,098	(1,358)	1,978	(7,022)	692	16,111	(13,724)
Share-based compensation expense	**428**	512	417	486	439	506	410	693
Maintenance capital expenditures[2]	**1,078**	690	281	426	275	112	(11)	35
Principal elements of lease payments	**1,821**	1,834	1,808	1,765	1,742	1,852	1,627	1,442
Distributable cash flow	**$ 5,440**	$ 3,579	$ 6,595	$ 7,888	$ 7,613	$ 5,380	$ 6,886	$ 11,050
Dividends declared	**3,227**	3,216	3,216	3,216	3,211	3,203	3,203	3,203
Dividends declared per share	**0.300**	0.300	0.300	0.300	0.300	0.300	0.300	0.300
Payout ratio[3]	**59.3%**	89.9%	48.8%	40.8%	42.2%	59.5%	46.5%	29.0%
Weighted average shares outstanding during the period, basic	**10,650**	10,641	10,622	10,611	10,603	10,597	10,575	10,563
Weighted average shares outstanding during the period, diluted	**10,716**	10,703	10,701	10,700	10,673	10,663	10,658	10,667
Trailing-twelve months ("TTM")								
Distributable cash flow	**23,502**	25,675	27,476	27,767	30,929	30,575	31,271	31,429
Dividends	**12,875**	12,859	12,846	12,833	12,820	12,805	12,783	12,761
Payout ratio[3]	**54.8%**	50.1%	46.8%	46.2%	41.4%	41.9%	40.9%	40.6%

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

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

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

OUTSTANDING SHARES

As at June 30, and August 8, 2022, the Corporation had 10,775,140 Common Shares outstanding. Basic and diluted weighted average number of Common Shares outstanding for the three months ended June 30, 2022 were 10,649,741 and 10,716,073, respectively (10,603,415 and 10,672,659, respectively, for the comparative 2021 interim periods).

In accordance with the Corporation's Long Term Incentive ("LTI") plan and in conjunction with the performance of the Corporation in the 2021 fiscal year, on April 14, 2022 the Compensation, Nominating and Corporate Governance Committee approved LTI compensation of $1.7 million (2021 – $1.8 million) to be paid as Common Shares issued from treasury. As at June 30, 2022, the value of the Common Shares held by the LTI custodian was $3.7 million (December 31, 2021 – $2.7 million) which was comprised of 115,804 in unvested Common Shares (December 31, 2021 – 78,632) with a nil aggregate cost (December 31, 2021 – $nil).

As at August 8, 2022 there were 10,775,140 Common Shares issued and outstanding including 115,804 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, 2022, the Corporation incurred fees totaling $34.5 compared to $34.5 for the same period of fiscal 2021.

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 2021 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 and Geopolitical Stability

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 an 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 reduced occupancy rates, consolidated results of operations will be impacted. The extent to which the outbreaks affects our earnings will depend on the length of time the hospitality industry continues to experience reduced occupancy rates. Earnings will continue to be particularly affected if we continue to experience reductions in travel and reduced hospitality occupancy rates.

In addition to this, certain geopolitical events and other factors have resulted in rising and unstable commodity costs for key inputs such as natural gas and diesel. In the event these cost increases exceed price increase mechanisms this could have an adverse effect on our business prospects and results of operations.

The Corporation is also facing supply chain uncertainty for specialized equipment, parts and other key input costs. As a result of these circumstances, 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 and geopolitical stability continues to be uncertain at this time, the Corporation is managing the ongoing risk through the Corporation's business continuity plan and other mitigating measures. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Corporation's operations, financial results and condition in future periods are also subject to significant uncertainty.

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

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)	**2022**	2021	**2022**	2021
Net earnings	**$ 1,616**	$ 3,411	**$ 1,170**	$ 5,045
Add:				
Income tax expense	**496**	1,183	**477**	2,005
Finance expense	**1,001**	901	**2,001**	1,766
Depreciation of property, plant and equipment	**5,936**	5,862	**11,792**	11,740
Amortization of intangible assets	**634**	848	**1,305**	1,710
EBITDA	**$ 9,683**	$ 12,205	**$ 16,745**	$ 22,266

Non-GAAP Measures

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, 2022, 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, 2022. These changes did not have a material impact on our financial results and are not expected to have a material impact in the future.

- Amendments to IFRS 3, Business Combinations - Updating a Reference to the Conceptual Framework, to clarify that an acquirer does not recognize contingent assets acquired in a business combination.
- Amendments to 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.
- 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.

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 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 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.

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, 2022 there are no material changes in the Corporation's risks or risk management activities since December 31, 2021, 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, 2022 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, 2022.

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, 2021.

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 »).