



**K·BRO**

# **MANAGEMENT'S DISCUSSION & ANALYSIS**

**Year Ended** Dec 31, 2022



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

The following Management's Discussion and Analysis ("MD&A") is supplemental to, and should be read in conjunction with, the audited consolidated financial statements of K-Bro Linen Inc. ("the Corporation") for the years ended December 31, 2022 and 2021 (the "2022 Audited Financial Statements"), as well as the unaudited interim condensed consolidated financial statements for the periods ended March 31, 2022, June 30, 2022 and September 30, 2022. The Corporation and its wholly-owned subsidiaries, including K-Bro Linen Systems Inc. and Fishers Topco Ltd., are collectively referred to as "K-Bro" in this MD&A.

Management is responsible for the information contained in this MD&A and its consistency with information presented to the Audit Committee and Board of Directors. All information in this document has been reviewed and approved by the Audit Committee and Board of Directors. This review was performed by management with information available as of March 21, 2023.

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 thereof; (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) interest and 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 five UK sites located in Cupar, Perth, Newcastle, Livingston and Coatbridge.

### Industry and Market

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

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

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

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

## **Industry Characteristics and Trends**

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

*Generally Stable Industry with Moderate Cyclicity* – 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 and other geopolitical risks have 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.

*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.

## STRATEGY

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

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

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

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

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

## FOURTH QUARTER OVERVIEW

Net earnings for the fourth quarter of 2022 were \$0.3 million or \$0.03 per Common Share (basic). Cash flow from operating activities for the fourth quarter of 2022 was \$1.0 million and distributable cash flow was \$3.0 million. Consolidated revenue for the fourth quarter of 2022 increased to \$70.7 million or by 13.6% compared to 2021 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 transition of the new rural AHS business which commenced in late Q3 2021, healthcare practice changes as a result of the COVID-19 pandemic and price increases across various markets serviced.

EBITDA (see "Terminology") remained relatively consistent quarter over quarter with EBITDA for the fourth quarter of 2022 being \$8.7 million compared to \$8.9 million in the fourth quarter of 2021, which is a decrease of 2.3%. For the Canadian division, the Corporation recorded EBITDA of \$7.7 million during the fourth quarter of 2022 which was consistent with the \$7.8 million recorded in the fourth quarter of 2021. The UK division also saw consistent EBITDA whereby the Corporation recorded EBITDA of \$1.0 million during the fourth quarter of 2022 compared to \$1.1 million in the fourth quarter of 2021. On a consolidated basis, the Corporation's EBITDA margin decreased from 14.4% in 2021 to 12.3% in 2022. For the Canadian division, Q4 EBITDA margin decreased to 14.2% from 16.2% for the comparative quarter of 2021. For the UK division, Q4 EBITDA margin decreased to 6.0% from 8.0% for the comparative quarter of 2021. For the Canadian division, the reduction in EBITDA margin is primarily related to temporary labour inefficiencies resulting from unusually competitive labour markets in certain cities in which we operate as well as the AHS transition, higher natural gas rates and higher delivery costs related to increased diesel rates and the AHS transition. For the UK division, the reduction in EBITDA margin is primarily related to labour efficiencies offset by significant increases in natural gas rates in 2022.

## SELECTED ANNUAL FINANCIAL INFORMATION

(In reporting currency \$ Canadian)

	Years Ended December 31,								
	Canadian Division	UK Division	2022	Canadian Division	UK Division	2021	Canadian Division	UK Division	(2)
	2022	2022		2021	2021		2020	2020	2020
<i>(thousands, except percentages and per share amounts)</i>									
Revenue	\$ 212,035	\$ 64,588	\$ 276,623	\$ 183,073	\$ 40,919	\$ 223,992	\$ 166,682	\$ 29,909	\$ 196,591
EBITDA <sup>(1)</sup>	32,365	4,127	36,492	39,678	3,113	42,791	38,365	(121)	38,244
Net earnings (loss)	6,042	(2,136)	3,906	13,604	(4,912)	8,692	10,892	(7,110)	3,782
<i>Net earnings (loss) per share:</i>									
Basic	\$ 0.567	\$ (0.200)	\$ 0.366	\$ 1.282	\$ (0.463)	\$ 0.819	\$ 1.032	\$ (0.673)	\$ 0.358
Diluted	\$ 0.563	\$ (0.199)	\$ 0.364	\$ 1.273	\$ (0.460)	\$ 0.813	\$ 1.025	\$ (0.669)	\$ 0.356
Total assets			\$ 325,760			\$ 332,519			\$ 323,811
Long-term debt (excludes lease liabilities)			45,166			\$ 37,973			40,657
<i>Weighted average number of shares outstanding:</i>									
Basic			10,657,742			10,608,539			10,557,147
Diluted			10,735,269			10,686,187			10,629,237

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

## SUMMARY OF 2022 RESULTS, KEY EVENTS AND OUTLOOK

Net earnings were \$3.9 million or \$0.37 per Common Share (basic). Cash flow from operating activities was \$26.1 million and distributable cash flow was \$19.6 million. Revenue increased in fiscal 2022 to \$276.6 million or by 23.5% compared to 2021. Consolidated revenue for the fourth quarter of 2022 increased to \$70.7 million or by 13.6% compared to 2021 primarily related to easing of COVID-19 pandemic restrictions which drove stronger hospitality client activity combined with the continued strength of healthcare revenues. Healthcare revenue benefitted from the transition of the new rural AHS business, which commenced in late Q3 2021, and changes to healthcare practices following the COVID-19 pandemic. Certain price increases were secured across various markets serviced to offset inflation-related cost increases with further increases to be implemented in Q1 and Q2 2023.

EBITDA (see "Terminology") decreased in 2022 to \$36.5 million or by 14.7% compared to \$42.8 million in 2021. On a consolidated basis, EBITDA margin decreased from 19.1% in 2021 to 13.2% in 2022.

For the Canadian division, the EBITDA margin decreased to 15.3% in 2022 from 21.7% in 2021. The decrease in margin is primarily related to temporary labour inefficiencies resulting from unusually competitive labour markets in certain cities in which we operate, higher natural gas rates, higher delivery costs related to increased diesel rates, and lower government assistance received. The margin is also impacted by the AHS transition and the repricing of the Corporation's existing business in Edmonton and Calgary with AHS which took effect on August 1, 2021 in advance of the business being fully transitioned.

For the UK division, the EBITDA margin decreased to 6.4% in 2022 from 7.6% in 2021. The reduction in EBITDA margin is primarily related to labour efficiencies which are offset by increases in natural gas rates in 2022.

**Key events in our markets are summarized below.**

### ***Acquisition of Buanderie Paranet***

On March 2, 2023, the Corporation announced the closing of a share purchase agreement to acquire all the assets of a private laundry and linen services company incorporated in Canada and operating in Quebec City, Quebec for total consideration of \$11.5 million and a potential earnout of \$1.9 million. The acquisition will be accounted for using the acquisition method, whereby the purchase consideration will be allocated to the net assets acquired. Paranet is a private laundry and linen services company for the Quebec City healthcare and hospitality markets. The purchase price will be satisfied by drawing down on the Corporation's revolving credit facility. At the time the financial statements were authorized for issue, and due to the timing of the acquisition, the Corporation has not yet completed the accounting for the acquisition of Paranet.

### ***3sHealth Contract Extension***

In Q2 2022, 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 was 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. In 2022, the Corporation incurred one-time transition costs and experienced temporary margin impacts as the new volume was transitioned into the Corporation's two facilities in Edmonton and Calgary. Management is confident in their ability to return to 2019 margin levels, consistent with historical seasonal trends, once we gain efficiencies from the AHS transition which is anticipated to occur in the later half of 2023.

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***

In Q2 2022, the Corporation completed an amendment to its existing revolving credit facility, which extended the agreement from July 31, 2024 to July 31, 2026. The Corporation's incremental borrowing rate under its existing credit facility is determined by the Canadian prime rate plus an applicable margin based on the ratio of Funded Debt to EBITDA as defined in the credit agreement. Throughout fiscal 2022, the Canadian prime rate has risen from 3.7% in January 2022 to 6.45% in December 2022. As a result of

this increase, total interest rate expense would increase \$1.1 million on an annual basis assuming the December 31, 2022 credit facility utilization rate of \$47,002.

### ***Capital Investment Plan***

For fiscal 2023, the Corporation's planned capital spending is expected to be approximately \$7.0 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 2022 that are to be paid in 2023. 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, which has had, and is expected to continue to have an adverse impact on the Corporation's hospitality business. While government-imposed restrictions eased significantly over the course of 2022, and vaccination rates continued to rise, the uncertainty regarding the ongoing COVID-19 pandemic remains a threat to the continued recovery in the Corporation's hospitality business. The COVID-19 pandemic has also contributed to unusually competitive labour markets, causing inefficiencies in attracting, training and retaining employees. While the Corporation anticipates labour markets will stabilize, the timing remains uncertain.

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, electricity 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's Credit Facility is subject to floating interest rates and, therefore, is subject to fluctuations in interest rates which are beyond the Corporation's control. Increases in interest rates, both domestically and internationally, could negatively affect the Corporation's cost of financing its operations and investments.

The duration and full financial effects of the COVID-19 pandemic, geopolitical events and rising interest rates, continue to be uncertain at this time. The Corporation is managing ongoing risks 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.

The following table depicts the impact of the COVID-19 pandemic on the Corporation's revenue for 2022 and 2021.



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%
<b>Q1 2021 compared to Q1 2019 (Jan to March)</b>	<b>26%</b>	<b>-81%</b>	<b>-18%</b>	<b>Q1 2022 compared to Q1 2019 (Jan to March)</b>	<b>27%</b>	<b>-23%</b>	<b>6%</b>
April	24%	-81%	-22%	April	24%	-7%	11%
May	21%	-69%	-19%	May	26%	-3%	13%
June	22%	-49%	-13%	June	26%	-8%	9%
<b>Q2 2021 compared to Q2 2019 (April to June)</b>	<b>23%</b>	<b>-66%</b>	<b>-18%</b>	<b>Q2 2022 compared to Q2 2019 (April to June)</b>	<b>25%</b>	<b>-6%</b>	<b>11%</b>
July	16%	-40%	-11%	July	20%	-4%	9%
August	11%	-30%	-9%	August	27%	-2%	12%
September	12%	-28%	-8%	September	22%	-13%	5%
<b>Q3 2021 compared to Q3 2019 (July to September)</b>	<b>13%</b>	<b>-33%</b>	<b>-9%</b>	<b>Q3 2022 compared to Q3 2019 (July to September)</b>	<b>23%</b>	<b>-6%</b>	<b>9%</b>
October	12%	-28%	-5%	October	20%	-1%	11%
November	19%	-23%	1%	November	26%	2%	16%
December	20%	-23%	1%	December	25%	-7%	11%
<b>Q4 2021 compared to Q4 2019 (October to December)</b>	<b>17%</b>	<b>-25%</b>	<b>-1%</b>	<b>Q4 2022 compared to Q4 2019 (October to December)</b>	<b>24%</b>	<b>-3%</b>	<b>12%</b>
<b>YTD</b>	<b>20%</b>	<b>-49%</b>	<b>-11%</b>	<b>YTD</b>	<b>25%</b>	<b>-11%</b>	<b>9%</b>

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 pandemic, geopolitical events and rising interest rates on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

## Impairment of Assets

- i) The Corporation performed its annual assessment for goodwill impairment for the Canadian division and for the UK division as at December 31, 2022 and December 31, 2021 in accordance with its policy described in Note 2(k) and Note 2(h). The Corporation also performed impairment assessments for CGUs where there could be a risk of impairment due to the presence of potential impairment indicators at the CGU level.

For both periods, the recoverable amount for the CGUs was assessed using an earnings multiple approach. If the result of the earnings multiple approach indicated a higher level of sensitivity a probability weighted discounted cash flow approach was performed. The Corporation references Board approved budgets and cash flow forecasts, trailing twelve-month EBITDA, implied multiples and discount rates in the valuation calculations.

### Earnings multiple approach (FVLCD)

The assumptions used are based on the Corporation's board approved budgets, cash flow forecasts, trailing twelve-month EBITDA and the implied multiples. For both fiscal years, cash flows were projected based on actual results for the fiscal year tested as well as business forecasts for the immediate fiscal year following the testing period and then extrapolated for revenue growth and expected changes in the general economy and specific markets within which the CGU operates.

The implied multiple is calculated by utilizing the average multiples of comparable public companies. The Corporation used an implied average forward multiple of 10.60 (2021 - 10.80) to calculate the recoverable amounts. Where a CGU has sufficient headroom a probability weighted discounted cash flow approach was not performed.

Where a CGU shows sensitivity to the earnings multiple approach, particularly those CGUs with a

strong hospitality base, higher uncertainty as a result of COVID-19 or higher uncertainty due to geopolitical events or unusually competitive labour markets, a secondary test is performed based on a probability-weighted discounted cash flow approach.

Probability weighted discounted cash flow (VIU)

The recoverable amounts are determined using the value-in-use (“VIU”) approach which considers the probability weighted discounted future cash flows specific to each CGU tested.

The assumptions used are based on the Corporation’s board approved budgets, cash flow forecasts, trailing twelve-month EBITDA, the pre-tax discount rate and terminal value growth rate. For both fiscal years, cash flows were projected based on actual results for the fiscal year tested as well as business forecasts for the immediate fiscal year following the testing period and then extrapolated for revenue growth and expected changes in the general economy and specific market within which the CGU operates.

The discounted cash flows consider the specific environment within which each of the CGUs operate. Estimating the specific cash flows requires judgements on both past and future performance as well as overall market expectations. The calculation of the recoverable amount using the discounted cash flow was based on the following key assumptions:

	Testing Methodology	Pre-tax Discount Rate	Terminal Value Growth Rate	
	December 31 2022	December 31 2022	December 31 2022	December 31 2021
Calgary	FVLCD	n/a	n/a	n/a
Edmonton	FVLCD	n/a	n/a	n/a
Vancouver 2 *	FVLCD	n/a	n/a	2.0%
Vancouver 1	FVLCD	n/a	n/a	n/a
Victoria *	FVLCD	n/a	n/a	2.0%
UK	VIU	15.4%	2.0%	2.0%

\* For the year ended December 31, 2021, these CGUs were tested using the VIU methodology

For the December 31, 2022 impairment test, management’s probability weighted approach was evaluated based on an equally weighted probability of a continued one-year downturn in sales to the worst case scenario of a two year downturn in sales. The scenarios estimated a decline of 8% to 12 % for 2023, 7% for 2024 with sales returning to normalized levels thereafter with sales growth estimates used 2%. These represent the Corporation’s best estimate of cash flows over the forecast period.

For the December 31, 2021 impairment test, management’s probability weighted approach was evaluated based on an equally weighted probability of a continued one year downturn in sales to the worst case scenario of a two year downturn in sales. The scenarios estimated a decline of 5% to 25% for 2022, and 0% to 10% for 2023, with sales returning to normalized levels thereafter with sales growth estimates used 2%.

The terminal value growth rate is based on management's best estimate of the long-term growth rate for its CGUs after the forecast period, considering historic performance and future economic forecasts.

Based on testing performed at December 31, 2022 and December 31, 2021 no impairment was determined to exist.

ii) Recoverable Amount

The recoverable amount of each CGU is sensitive to changes in the market conditions which could result in material changes. The Corporation does not believe there is a reasonable change in the key assumptions that would cause the recoverable amount of any CGU to break even or have an impairment. The table below shows the sensitivity of key assumptions to a reasonable change

	Recoverable Amount		Change in Pre-tax Discount Rate increase of 1%		Change in Terminal Value Growth Rate decrease of 1%	
	December 31 2022	December 31 2021	December 31 2022	December 31 2021	December 31 2022	December 31 2021
	Calgary	n/a	n/a	n/a	n/a	n/a
Edmonton	n/a	n/a	n/a	n/a	n/a	n/a
Vancouver 2 *	n/a	\$31,176	n/a	-\$3,152	n/a	-\$2,818
Vancouver 1	n/a	n/a	n/a	n/a	n/a	n/a
Victoria *	n/a	\$8,290	n/a	-\$770	n/a	-\$834
UK	£50,261	£53,083	-£4,201	-£4,915	-£4,458	-£4,988

\* For the year ended December 31, 2021, these CGUs were tested using the VIU methodology

## OUTLOOK

The Corporation's healthcare segment continues to outperform relative to historical levels, with a steady trend. For the hospitality segment, management expects a good level of activity with the easing of government-imposed restrictions on international border crossings, increasing business/leisure travel, and price increases will continue to support the strong recovery momentum in hospitality revenues experienced through 2022. The Corporation continues to pursue price increases to offset inflation-related costs and anticipates that 2023 results will reflect the full impact of price increases secured in the later part of Q4 2022 and into Q2 2023.

Within 2022, management has been focused on operational efficiencies and the transition of new AHS business, which was completed in early April 2022. Into 2023, 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 energy costs 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 natural gas as a percent of revenue has increased approximately 2.5 percentage points from historical levels for 2022. As we move into 2023, we expect to mitigate these cost increases with price increases to our customers.

The Corporation is also facing temporary labour inefficiencies from unusually competitive labour markets. Management is focused on the retention of existing staff, in addition to implementing strategies to recruit and hire new staff. The Corporation has achieved some success in certain markets but is still focusing efforts on other markets. The Corporation is managing more challenging regional labour availability with complementary temporary foreign worker programs.

Management is confident in their ability to return to 2019 margin levels, consistent with historical seasonal trends, once we gain efficiencies from the AHS transition which is anticipated to occur in the

later half of 2023. However, this will also be dependent on our ability to attract and retain staff in each of the markets in which we operate. Management anticipates labour markets will stabilize, but the timing remains uncertain.

With continued momentum in existing operations, management has refocused attention on strategic acquisitions, such as the recently announced acquisition of Parinet, to accelerate growth in both North America and Europe, geographies 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 December 31,					
(thousands, except percentages and per share amounts)		Canadian	UK		Canadian	UK	
Category	Indicator	Division	Division	2022	Division	Division	2021
		2022	2022		2021	2021	2021
Growth	EBITDA <sup>(1)</sup>	-0.6%	-13.9%	-2.3%	-34.8%	608.9%	-23.9%
	Revenue	13.3%	14.5%	13.6%	7.8%	144.9%	23.5%
	Distributable cash flow <sup>(2)</sup>			-54.2%			-4.2%
Profitability	EBITDA <sup>(1)</sup>	\$ 7,745	\$ 981	\$ 8,726	\$ 7,788	\$ 1,140	\$ 8,928
	EBITDA margin	14.2%	6.0%	12.3%	16.2%	8.0%	14.4%
	Net earnings (loss)	\$ 822	\$ (542)	\$ 280	\$ 2,043	\$ (544)	\$ 1,499
Stability	Debt to total capital <sup>(3)</sup>			20.6%			17.0%
	Unutilized line of credit			\$ 52,998			\$ 59,638
	Cash on hand			\$ 2,636			\$ 1,110
	Payout ratio			106.9%			48.8%
	Dividends declared per share			\$ 0.300			\$ 0.300
Cost containment	Wages and benefits	41.0%	35.4%	39.7%	39.9%	37.9%	39.5%
	Utilities	6.8%	14.3%	8.5%	6.3%	7.4%	6.6%
	Delivery	13.1%	16.1%	13.8%	11.4%	18.0%	12.9%
	Expenses included in EBITDA	85.8%	94.0%	87.7%	83.8%	92.0%	85.6%

		Years Ended December 31,					
(thousands, except percentages and per share amounts)		Canadian	UK		Canadian	UK	
Category	Indicator	Division	Division	2022	Division	Division	2021
		2022	2022		2021	2021	2021
Growth	EBITDA <sup>(1)</sup>	-18.4%	32.6%	-14.7%	3.4%	-2672.7%	11.9%
	Revenue	15.8%	57.8%	23.5%	9.8%	36.8%	13.9%
	Distributable cash flow <sup>(2)</sup>			-28.8%			-12.1%
Profitability	EBITDA <sup>(1)</sup>	\$ 32,365	\$ 4,127	\$ 36,492	\$ 39,678	\$ 3,113	\$ 42,791
	EBITDA margin	15.3%	6.4%	13.2%	21.7%	7.6%	19.1%
	Net earnings (loss)	\$ 6,042	\$ (2,136)	\$ 3,906	\$ 13,604	\$ (4,912)	\$ 8,692
Stability	Debt to total capital <sup>(3)</sup>			20.6%			17.0%
	Unutilized line of credit			\$ 52,998			\$ 59,638
	Cash on hand			\$ 2,636			\$ 1,110
	Payout ratio			65.9%			46.9%
	Dividends declared per share			\$ 1.200			\$ 1.200
Cost containment	Wages and benefits	41.2%	36.4%	40.1%	37.4%	40.1%	37.9%
	Utilities	6.4%	15.7%	8.6%	5.7%	7.8%	6.0%
	Delivery	12.8%	15.8%	13.5%	9.9%	16.3%	11.0%
	Expenses included in EBITDA	84.7%	93.6%	86.8%	78.3%	92.4%	80.9%

(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 (thousands, except percentages and per share amounts)	2022				2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	43,963	42,683	43,523	43,237	41,554	39,227	42,712	43,058
Hospitality revenue	26,708	30,945	27,367	18,197	20,656	22,266	9,963	4,556
Total revenue	70,671	73,628	70,890	61,434	62,210	61,493	52,675	47,614
Expenses included in EBITDA	61,945	62,607	61,207	54,372	53,282	49,896	40,470	37,553
EBITDA <sup>(1)</sup>	8,726	11,021	9,683	7,062	8,928	11,597	12,205	10,061
EBITDA as a % of revenue (EBITDA margin)	12.3%	15.0%	13.7%	11.5%	14.4%	18.9%	23.2%	21.1%
Depreciation and amortization	6,505	6,466	6,570	6,527	6,628	6,784	6,710	6,740
Finance expense	1,639	1,340	1,001	1,000	800	883	901	865
Earnings (loss) before income taxes	582	3,215	2,112	(465)	1,500	3,930	4,594	2,456
Income tax recovery (expense)	302	759	496	(19)	1	1,782	1,183	822
Net earnings (loss)	280	2,456	1,616	(446)	1,499	2,148	3,411	1,634
Net earnings (loss) as a % of revenue"	0.4%	3.3%	2.3%	-0.7%	2.4%	3.5%	6.5%	3.4%
Basic earnings (loss) per share	0.026	0.230	0.152	(0.042)	0.141	0.202	0.322	0.154
Diluted earnings (loss) per share	0.026	0.228	0.151	(0.042)	0.140	0.201	0.320	0.153
Total assets	325,760	321,527	329,677	325,041	332,519	330,494	326,157	316,101
Total long-term financial liabilities	105,744	100,408	106,327	99,302	102,617	97,582	100,306	89,343
Funds provided by operations	1,049	11,530	3,838	9,713	7,743	12,543	3,047	8,542
Long-term debt (excludes lease liabilities)	45,166	39,141	45,224	36,615	37,973	38,270	40,696	36,811
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 (thousands, except percentages and per share amounts)	2022				2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	42,419	41,197	41,936	41,687	39,835	37,564	41,107	41,432
Hospitality revenue	12,032	13,870	11,347	7,547	8,211	8,605	3,049	3,270
Total revenue	54,451	55,067	53,283	49,234	48,046	46,169	44,156	44,702
Expenses included in EBITDA	46,707	46,037	45,212	41,715	40,258	36,659	32,734	33,744
EBITDA <sup>(1)</sup>	7,745	9,030	8,071	7,519	7,788	9,510	11,422	10,958
EBITDA as a % of revenue (EBITDA margin)	14.2%	16.4%	15.1%	15.3%	16.2%	20.6%	25.9%	24.5%
Net earnings	822	2,122	1,669	1,429	2,043	2,944	4,460	4,157
Net earnings as a % of revenue	1.5%	3.9%	3.1%	2.9%	4.3%	6.4%	10.1%	9.3%
Basic earnings per share	0.077	0.199	0.157	0.134	0.192	0.277	0.421	0.392
Diluted earnings per share	0.076	0.197	0.156	0.134	0.191	0.275	0.418	0.390

(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 \$) (thousands, except percentages and per share amounts)	2022				2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	1,544	1,486	1,587	1,550	1,719	1,663	1,605	1,626
Hospitality revenue	14,676	17,075	16,020	10,650	12,445	13,661	6,914	1,286
Total revenue	16,220	18,561	17,607	12,200	14,164	15,324	8,519	2,912
Expenses included in EBITDA	15,239	16,570	15,995	12,657	13,024	13,237	7,736	3,809
EBITDA <sup>(1)</sup>	981	1,991	1,612	(457)	1,140	2,087	783	(897)
EBITDA as a % of revenue (EBITDA margin)	6.0%	10.7%	9.2%	-3.7%	8.0%	13.6%	9.2%	-30.8%
Net (loss) income	(542)	334	(53)	(1,875)	(544)	(796)	(1,049)	(2,523)
Net (loss) income as a % of revenue	-3.3%	1.8%	-0.3%	-15.4%	-3.8%	-5.2%	-12.3%	-86.6%
Basic (loss) earnings per share	(0.051)	0.031	(0.005)	(0.176)	(0.051)	(0.075)	(0.099)	(0.238)
Diluted (loss) earnings per share	(0.050)	0.031	(0.005)	(0.175)	(0.051)	(0.074)	(0.098)	(0.237)

Quarterly Financial Information - UK Division (in local currency Sterling £) (thousands, except percentages and per share amounts)	2022				2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	967	987	1,005	912	1,011	959	935	931
Hospitality revenue	9,200	11,327	10,153	6,267	7,325	7,877	4,028	737
Total revenue	10,167	12,314	11,158	7,179	8,336	8,836	4,963	1,668
Expenses included in EBITDA	9,553	10,994	10,134	7,448	7,665	7,633	4,505	2,181
EBITDA <sup>(1)</sup>	614	1,320	1,024	(269)	671	1,203	458	(513)
EBITDA as a % of revenue (EBITDA margin)	6.0%	10.7%	9.2%	-3.7%	8.0%	13.6%	9.2%	-30.8%
Net (loss) income	(341)	221	(32)	(1,103)	(321)	(458)	(610)	(1,444)
Net (loss) income as a % of revenue	-3.3%	1.8%	-0.3%	-15.4%	-3.9%	-5.2%	-12.3%	-86.6%
Basic (loss) earnings per share	(0.032)	0.021	(0.003)	(0.104)	(0.030)	(0.043)	(0.058)	(0.136)
Diluted (loss) earnings per share	(0.032)	0.020	(0.003)	(0.103)	(0.030)	(0.043)	(0.057)	(0.135)

(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

For the year ended December 31, 2022, K-Bro's consolidated revenue increased by 23.5% to \$276.6 million from \$224.0 million in the comparative period. This increase was primarily a result of COVID-19 pandemic restrictions being eased, the completion of the AHS transition, healthcare practice changes due to the COVID-19 pandemic and price increases across various markets to offset inflation-related cost increases. In 2022, approximately 62.7% of K-Bro's consolidated revenue was generated from healthcare institutions, which is lower compared to 74.4% in 2021, this is primarily related to the recovery of hospitality activity following the easing of COVID-19 pandemic restrictions.

Consolidated EBITDA decreased in the year to \$36.5 million from \$42.8 million in 2021, which is a decrease of 14.7%. The consolidated EBITDA margin decreased to 13.2% in 2022 compared to 19.1% in 2021. The decrease in margin is primarily related to higher natural gas prices particularly in the UK, the additional labour costs incurred due to temporary inefficiencies from unusually competitive labour markets in certain cities in which we operate, higher delivery costs related to higher diesel rates as well as the AHS transition, repricing of the Corporation's existing business in Edmonton and Calgary with AHS which took effect on August 1, 2021 in advance of the business being fully transitioned 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 \$4.8 million or 55.1% from \$8.7 million in 2021 to \$3.9 million in 2022, and net earnings as a percentage of revenue decreased by 2.5% to 1.4% in 2022 from 3.9% in 2021. The change in net earnings is primarily related to the flow through items in EBITDA discussed above, higher finance costs related to increased interest rates for the revolving credit facility, and lower income tax expense.

## Operating Expenses

Wages and benefits increased by \$26.2 million to \$111.0 million compared to \$84.8 million in the comparative period of 2021, and as a percentage of revenue increased by 2.2 percentage points to 40.1%. The increase as a percentage of revenue is primarily related to a \$-0.8 million decrease in government assistance received in the Canadian division, escalating minimum wage rates, temporary inefficiencies from unusually competitive labour markets in certain cities in which we operate and the transitioning of the new AHS business.

Linen increased by \$3.4 million to \$31.3 million compared to \$27.9 million in the comparative period of 2021, and as a percentage of revenue decreased by 1.2 percentage points to 11.3%. The decrease as a percentage of revenue is primarily related to the changes to the mix of linen and higher hospitality volumes processed compared to the prior year.

Utilities increased by \$10.3 million to \$23.8 million compared to \$13.5 million in the comparative period of 2021, and as a percentage of revenue increased by 2.6 percentage points to 8.6%. The increase as a percentage of revenue is primarily related to increased natural gas rates, particularly in the UK, as well as in British Columbia for the fourth quarter of 2022.

Delivery increased by \$12.6 million to \$37.3 million compared to \$24.7 million in the comparative period of 2021, and as a percentage of revenue increased by 2.5 percentage points to 13.5%. The increase as a percentage of revenue is primarily related to rising diesel prices and the costs associated with the new rural AHS business along with delivery route inefficiencies associated with the incremental hospitality volumes processed in the year as well as a decrease in government assistance received in the Canadian division.

Occupancy costs increased by \$0.6 million to \$4.5 million compared to \$3.9 million in the comparative period of 2021, and as a percentage of revenue remained relatively constant at 1.6%. The increase in spending is related to increased facility rent as well as increased facility repairs & maintenance.



Materials and supplies increased by \$1.8 million to \$10.9 million compared to \$9.1 million in the comparative period of 2021, and as a percentage of revenue remained relatively constant at 4.0%. The increase in spending is due to increased volume.

Repairs and maintenance increased by \$2.7 million to \$10.4 million compared to \$7.7 million in the comparative period of 2021, and as a percentage of revenue increased by 0.4 percentage points to 3.8%. The increase as a percentage of revenue is primarily related to related to one-time costs and increased prices.

Corporate costs increased by \$1.5 million to \$11.0 million compared to \$9.5 million in the comparative period of 2021, and as a percentage of revenue remained relatively constant at 4.0%.

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

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

## LIQUIDITY AND CAPITAL RESOURCES

In 2022, cash generated by operating activities was \$26.1 million with a debt to total capitalization of 20.6%. The change in cash from operations is primarily due to the change in working capital items driven mainly from the timing of cash receipts, prepaid expenses with suppliers and the timing of tax payments. 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 \$53.0 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 2022, cash used in financing activities was \$13.1 million compared to \$22.7 million in 2021. Financing activities consisted of net repayment of the revolving credit facility, dividends paid to Shareholders and principal elements of lease payments.

During 2022, cash used in investing activities was \$11.4 million compared to \$10.5 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:

(thousands)	Payments due by year				
	Total	2023	2024 to 2025	2026 to 2027	Subsequent
Long-term debt	\$ 45,166	-	-	45,166	-
Lease liabilities	\$ 61,172	10,236	17,188	12,799	20,949
Utility commitments	\$ 26,592	11,958	13,139	1,495	-
Linen purchase obligations	\$ 10,161	10,161	-	-	-
Property, plant and equipment commitments	\$ 2,341	2,341	-	-	-

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, 2022. 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

<i>(thousands, except percentages)</i>	Year Ended December 31, <b>2022</b>	Year Ended December 31, 2021
Cash and cash equivalents	\$ (2,636)	\$ (1,110)
Long-term debt (excludes lease liabilities)	45,166	37,973
Shareholders' equity	176,542	186,401
Total capital	\$ 219,072	\$ 223,264
Debt to total capital (see <i>Terminology</i> for definition)	20.6%	17.0%

For the period ended December 31, 2022, the Corporation had a debt to total capital of 20.6%, unused revolving credit facility of \$53.0 million and has not incurred any events of default under the terms of its credit facility.

As at December 31, 2022, the Corporation had net working capital of \$36.6 million compared to its working capital position of \$30.3 million at December 31, 2021. The increase in working capital is primarily attributable to additional requirements driven mainly from increased client activity as a result of the COVID-19 pandemic, prepaid expenses with suppliers and the timing of tax payments.

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		2021	
			Amount per Share	Total Amount (1), (3), (5), (7)	Amount per Share	Total Amount (2), (4), (6), (8)
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	\$ 3,228	\$ 0.30000	\$ 3,211
July	August 15	10,774,180	\$ 0.10000	\$ 1,077	\$ 0.10000	\$ 1,072
August	September 15	10,773,190	0.10000	1,077	0.10000	1,072
September	October 14	10,773,190	0.10000	1,077	0.10000	1,072
Q3			\$ 0.30000	\$ 3,234	\$ 0.30000	\$ 3,216
October	November 15	10,773,190	\$ 0.10000	\$ 1,076	\$ 0.10000	\$ 1,072
November	December 15	10,773,190	0.10000	1,076	0.10000	1,072
December	January 13	10,773,190	0.10000	1,076	0.10000	1,072
Q4			\$ 0.30000	\$ 3,227	\$ 0.30000	\$ 3,216
YTD			\$ 1.20000	\$ 12,905	\$ 1.20000	\$ 12,846

- (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, \$3,228 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.
- (5) The total amount of dividends declared was \$0.10000 per share for a total of \$1,077,417 for July 2022, \$1,077,318 for August 2022, and \$1,077,318 for September 2022. When rounded in thousands, \$3,234 of dividends were declared in Q3 2022.
- (6) The total amount of dividends declared were \$0.10000 per share for a total of \$1,071,881 per month for July - September 2021; when rounded in thousands, \$3,216 of dividends were declared in Q3 2021.
- (7) The total amount of dividends declared was \$0.10000 per share for a total of \$1,077,319 per month for October - December 2022; when rounded in thousands, \$3,227 of dividends were declared in Q4 2022.
- (8) The total amount of dividends declared was \$0.10000 per share for a total of \$1,067,689 per month for October - December 2021; when rounded in thousands, \$3,216 of dividends were declared in Q4 2021.

For the year ended December 31, 2022, the Corporation declared a \$1.200 per Common Share dividend compared to \$1.823 per Common Share of Distributable Cash Flow (see "Terminology"). The actual payout ratio was 65.9%.

The Corporation's policy is to pay dividends to Shareholders from its available distributable cash flow while considering requirements for capital expenditures, working capital, growth capital and other reserves considered advisable by the Board of Directors. All such dividends are discretionary. Dividends are declared payable each month in equal amounts to Shareholders on the last business day of each month and are paid by the 15<sup>th</sup> 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			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash provided by operating activities	\$ 1,049	\$ 11,530	\$ 3,838	\$ 9,713	\$ 7,743	\$ 12,543	\$ 3,047	\$ 8,542
<i>Deduct (add):</i>								
Net changes in non-cash working capital items <sup>(1)</sup>	(4,994)	1,204	(4,929)	3,098	(1,358)	1,978	(7,022)	692
Share-based compensation expense	410	438	428	512	417	486	439	506
Maintenance capital expenditures <sup>(2)</sup>	706	520	1,078	690	281	426	275	112
Principal elements of lease payments	1,908	1,834	1,821	1,834	1,808	1,765	1,742	1,852
<b>Distributable cash flow</b>	<b>\$ 3,019</b>	<b>\$ 7,534</b>	<b>\$ 5,440</b>	<b>\$ 3,579</b>	<b>\$ 6,595</b>	<b>\$ 7,888</b>	<b>\$ 7,613</b>	<b>\$ 5,380</b>
Dividends declared	3,227	3,234	3,228	3,216	3,216	3,216	3,211	3,203
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300
Payout ratio <sup>(3)</sup>	106.9%	42.9%	59.3%	89.9%	48.8%	40.8%	42.2%	59.5%
Weighted average shares outstanding during the period, basic	10,675	10,659	10,650	10,641	10,622	10,611	10,603	10,597
Weighted average shares outstanding during the period, diluted	10,751	10,750	10,716	10,703	10,701	10,700	10,673	10,663
<b>Trailing-twelve months ("TTM")</b>								
Distributable cash flow	19,572	23,148	23,502	25,675	27,476	27,767	30,929	30,575
Dividends	12,905	12,894	12,875	12,859	12,846	12,833	12,820	12,805
Payout ratio <sup>(3)</sup>	65.9%	55.7%	54.8%	50.1%	46.8%	46.2%	41.4%	41.9%

(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 December 31, 2022, the Corporation had 10,773,190 Common Shares outstanding. Basic and diluted weighted average number of Common Shares outstanding for 2022 were 10,657,742 and 10,735,269, respectively (10,608,539 and 10,686,187, respectively, for the comparative 2021 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 23, 2022 the Compensation, Nominating and Corporate Governance Committee approved LTI compensation of \$1.8 million (2021 – \$1.8 million) to be paid as Common Shares issued from treasury. As at December 31, 2022, the value of the Common Shares held by the LTI custodian was \$1.9 million (December 31, 2021 – \$2.7 million) which was comprised of 64,552 in unvested Common Shares (December 31, 2021 – 78,632) with a nil aggregate cost (December 31, 2021 – \$nil).

As at March 21, 2023 there were 10,773,190 Common Shares issued and outstanding including 64,552 Common Shares issued but held as unvested treasury shares.

## **RELATED PARTY TRANSACTIONS**

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by Mr. Matthew Hills, a member of the Board of Directors. The amounts charged are recorded at their exchange amounts and are on arm's length terms. For the year ended December 31, 2022, the Corporation incurred fees totaling \$72,000 (2021 – \$138,000).

## **CRITICAL ACCOUNTING ESTIMATES**

The Corporation's summary of significant accounting policies are contained in Note 2 to the 2022 Audited Financial Statements.

The 2022 Audited Financial Statements include estimates and assumptions made by management in respect of operating results, financial conditions, contingencies, commitments, and related disclosures. Actual results may vary from these estimates. The following are, in the opinion of management, the Corporation's most critical accounting estimates, being those that involve the most difficult, subjective and complex judgments, and/or requiring estimates that are inherently uncertain and which may change in subsequent reporting periods.

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

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

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

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

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

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

### **COVID-19 Risk 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. While government-imposed restrictions eased significantly over the course of 2022, and vaccination rates continued to rise, the uncertainty regarding the ongoing COVID-19 pandemic remains a threat to the continued recovery in the Corporation's hospitality business. The COVID-19 pandemic has also contributed to unusually competitive labour markets, causing inefficiencies in attracting, training and retaining employees. While the Corporation anticipates labour markets will stabilize, the timing remains uncertain.

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, electricity 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's Credit Facility is subject to floating interest rates and, therefore, is subject to fluctuations in interest rates which are beyond the Corporation's control. Increases in interest rates, both domestically and internationally, could negatively affect the Corporation's cost of financing its operations and investments.

The duration and full financial effects of the COVID-19 pandemic, geopolitical events and rising interest rates, continue to be uncertain at this time. The Corporation is managing ongoing risks 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.

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 pandemic, geopolitical events and rising interest rates on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

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

## **Areas of Significant Judgement**

### **Recognition of rebate liabilities**

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

### **Impairment of goodwill and non-financial assets**

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

The Corporation applies judgment in:

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

### **Segment identification**

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

### **Lease term**

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



## **Areas of Estimation Uncertainty**

### **Incremental Borrowing Rate**

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

### **Amortization of property, plant and equipment, and intangible assets**

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

### **Linen in service**

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

### **Provisions**

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

### **Impairment of goodwill and non-financial assets**

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

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

## **TERMINOLOGY**

### **EBITDA**

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

technological currency and management's estimate of their useful life. Accordingly, EBITDA comprises revenues less operating costs before financing costs, capital asset and intangible asset amortization, and income taxes.

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

(thousands)	Three Months Ended December 31,		Years Ended December 31,	
	2022	2021	2022	2021
Net earnings	\$ 280	\$ 1,499	\$ 3,906	\$ 8,692
Add:				
Income tax expense	302	1	1,538	3,788
Finance expense	1,639	800	4,980	3,449
Depreciation of property, plant and equipment	6,120	5,958	23,766	23,625
Amortization of intangible assets	385	670	2,302	3,237
<b>EBITDA</b>	<b>\$ 8,726</b>	<b>\$ 8,928</b>	<b>\$ 36,492</b>	<b>\$ 42,791</b>

## 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, and debt to total capital are not calculations based on IFRS and are not considered an alternative to IFRS measures in measuring K-Bro's performance. Distributable

cash flow, and payout ratio do not have standardized meanings in IFRS and are therefore not likely to be comparable with similar measures used by other issuers.

## **Off Balance Sheet Arrangements**

As at December 31, 2022, the Corporation has not entered into any off balance sheet arrangements.

## **CHANGES IN ACCOUNTING POLICIES**

The Corporation has prepared its December 31, 2022 audited consolidated financial statements in accordance with IFRS. See Note 2 of the 2022 Audited Financial Statements for more information regarding the significant accounting principles used to prepare the 2022 Audited Financial Statements.

## **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.

## **FINANCIAL INSTRUMENTS**

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

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

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

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

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

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

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

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

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

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

## **CRITICAL RISKS AND UNCERTAINTIES**

As at December 31, 2022, there are no material changes in the Corporation's risks or risk management activities since December 31, 2021. The Corporation's results of operations, business prospects, financial condition, cash dividends to Shareholders and the trading price of the Common Shares are subject to a number of risks. These risk factors include: the adverse impact of the coronavirus (COVID-19) pandemic on the Corporation, which is significant, particularly to our hospitality segment; dependence on long-term contracts and the associated renewal risk thereof; the effects of market volatility and uncertainty; potential future tax changes; the Corporation's competitive environment and increased competition; our ability to acquire and successfully integrate and operate additional businesses; utility costs; the labour markets; the fact that our credit facility imposes numerous covenants and encumbers assets; and, environmental matters.

The Corporation's operating results may be subject to increased risk due to current geopolitical instability that could have an impact on key input prices, such as natural gas. This uncertainty has become more pronounced with the conflict in the Ukraine which began in late February 2022 and has resulted in significant volatility in natural gas supply rates. We expect to mitigate some of these cost increases with price increases to our customers through price escalation measures although there could be some lag.

For a discussion of these risks and other risks associated with an investment in the Common Shares, see

*“Risk Factors – Risks Related to K-Bro and the Laundry and Linen Industry” detailed in the Corporation’s Annual Information Form” that is available at [www.sedar.com](http://www.sedar.com).*

## **CONTROLS AND PROCEDURES**

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

### **Disclosure Controls and Procedures**

The Corporation has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements of K-Bro was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Corporation’s CEO and CFO have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2022, and the CEO and CFO have concluded that these controls were operating effectively.

### **Internal Controls over Financial Reporting**

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting (“ICFR”). Consequently the CEO and CFO confirm that the additions to these controls that occurred during the year ended December 31, 2022, did not materially affect, or are reasonably likely to materially affect, the Corporation’s ICFR. Based upon their evaluation of these controls for the year ended December 31, 2022, the CEO and CFO have concluded that these controls were operating effectively.

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

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

Additional information regarding K-Bro including required securities filings are available on our website at [www.k-brolinen.com](http://www.k-brolinen.com) and on the Canadian Securities Administrators’ website at [www.sedar.com](http://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](http://www.k-brolinen.com) et sur le site Web des autorités canadiennes en valeurs mobilières au [www.sedar.com](http://www.sedar.com), le site Web du Système électronique de données, d’analyse et de recherche (« SEDAR »).