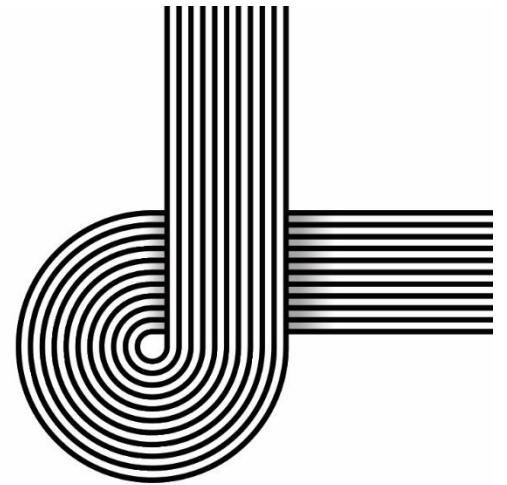




K·BRO



# MANAGEMENT'S DISCUSSION & ANALYSIS

Q1, 2023



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

The following Management's Discussion and Analysis ("MD&A") is supplemental to, and should be read in conjunction with, the unaudited interim Condensed Consolidated Financial Statements of K-Bro Linen Inc. ("the Corporation") for the three months ended March 31, 2023 and the audited Consolidated Financial Statements, as well as the MD&A, for the year ended December 31, 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 May 10, 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 ten 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.

*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.

## FIRST QUARTER OVERVIEW

Net earnings for the first quarter of 2023 were \$2.0 million or \$0.19 per Common Share (basic). Cash flow from operating activities for the first quarter of 2023 was \$9.3 million and distributable cash flow was \$5.1 million. Consolidated revenue for the first quarter of 2023 increased to \$70.8 million or by 15.2% compared to 2022 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 well as price increases across various markets serviced that were implemented in Q4 2022 and Q1 2023.

EBITDA (see "Terminology") increased year over year with EBITDA for the first quarter of 2023 being \$10.3 million compared to \$7.1 million in the first quarter of 2022, which is a increase of 46.3%. For the Canadian division, the Corporation recorded EBITDA of \$9.4 million during the first quarter of 2023 which was an increase compared to the \$7.5 million recorded in the first quarter of 2022. The UK division also saw increased EBITDA whereby the Corporation recorded EBITDA of \$1.0 million during the first quarter of 2023 compared to \$-0.5 million in the first quarter of 2022. On a consolidated basis, the Corporation's EBITDA margin increased to 14.6% in the first quarter of 2023 from 11.5% in first quarter of 2022. For the Canadian division, Q1 EBITDA margin increased to 16.9% from 15.3% for the comparative quarter of 2022. For the UK division, Q1 EBITDA margin increased to 6.4% from -3.7% for the comparative quarter of 2022. For the Canadian division, the increase in margin is primarily related to stronger client activity across the hospitality segment and price increases secured across various markets serviced. For the UK division, the increase in EBITDA margin is primarily related to stronger client activity across the hospitality segment, price increases, labour efficiencies, the natural gas hedge which was put in place in Q2 2022, and delivery cost efficiencies.

## SELECTED ANNUAL FINANCIAL INFORMATION

(In reporting currency \$ Canadian)

	Three Months Ended March 31,								
	Canadian Division		UK Division	Canadian Division		UK Division	Canadian Division		UK Division
	2023	2023	2023	2022	2022	2022	2021	2021	2021
<i>(thousands, except percentages and per share amounts)</i>									
Revenue	\$ 55,499	\$ 15,284	\$ 70,783	\$ 49,234	\$ 12,200	\$ 61,434	\$ 44,702	\$ 2,912	\$ 47,614
EBITDA <sup>(1)</sup>	9,358	975	10,333	7,519	(457)	7,062	10,958	(897)	10,061
Net earnings (loss)	2,245	(245)	2,000	1,429	(1,875)	(446)	4,157	(2,523)	1,634
<i>Net earnings (loss) per share:</i>									
Basic	\$ 0.210	\$ (0.023)	\$ 0.187	\$ 0.134	\$ (0.176)	\$ (0.042)	\$ 0.392	\$ (0.238)	\$ 0.154
Diluted	\$ 0.209	\$ (0.023)	\$ 0.186	\$ 0.134	\$ (0.175)	\$ (0.042)	\$ 0.390	\$ (0.237)	\$ 0.153
Total assets			\$ 337,277			\$ 325,041			\$ 316,101
Long-term debt (excludes lease liabilities)			53,713			\$ 36,615			36,811
<i>Weighted average number of shares outstanding:</i>									
Basic			10,706,687			10,641,146			10,597,466
Diluted			10,733,419			10,702,507			10,662,966

(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 2023 RESULTS, KEY EVENTS AND OUTLOOK

Net earnings were \$2.0 million or \$0.19 per Common Share (basic). Cash flow from operating activities was \$9.3 million and distributable cash flow was \$5.1 million. Consolidated revenue for the first quarter of 2023 increased to \$70.8 million or by 15.2% compared to 2022 primarily related to the easing of COVID-19 pandemic restrictions which drove stronger hospitality client activity combined with the continued strength of healthcare revenues mainly from the transition of the new rural AHS business, which commenced in late Q3 2021 and was completed in Q2 2022. In Q1 2023, revenue reflected the benefit of certain price increases to offset inflation-related costs and further price increases will be implemented through Q2 2023.

EBITDA (see "Terminology") increased in 2023 to \$10.3 million or by 46.3% compared to \$7.1 million in 2022. On a consolidated basis, EBITDA margin increased to 14.6% in 2023 from 11.5% in 2022.

For the Canadian division, the EBITDA margin increased to 16.9% in 2023 from 15.3% in 2022. The increase in margin is primarily related to stronger client activity across the hospitality segment and price increases secured across various markets serviced.

For the UK division, the EBITDA margin increased to 6.4% in 2023 from -3.7% in 2022. The improvement in EBITDA margin is primarily related to increases in client activity, price increases, labour efficiencies, the natural gas hedge which was put in place in Q2 2022, and delivery cost efficiencies.

## Key events in our markets are summarized below.

### Acquisition of Buanderie Paranet

On March 1, 2023 the Corporation completed the acquisition of 100% of the share capital of Buanderie Para-Net (“Paranet”) operating as Paranet (the “Acquisition”), a private laundry and linen services company operating in Quebec City, Quebec. The Acquisition was completed through a share purchase agreement consisting of existing working capital, fixed assets, contracts and an employee base. The contracts acquired are in the Quebec healthcare and hospitality sector, which complements the existing business of the Corporation. Based on the Corporation’s evaluation of the Acquisition and the criteria in the identification of a business combination established in IFRS 3, the Acquisition will be accounted for using the acquisition method, whereby the purchase consideration will be allocated to the fair values of the net assets acquired.

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. This includes the accounting for the amounts attributable to property, plant & equipment, intangible assets and the associated goodwill. No measurement adjustments were made in the current period.

The Corporation financed the Acquisition and transaction costs from existing loan facilities.

The preliminary purchase price allocated to the net assets acquired, based on their estimated fair values, is as follows:

Cash consideration	\$	11,366
Contingent consideration	\$	945
Total purchase price	\$	12,311

The assets and liabilities recognized as a result of the Acquisition are as follows:

Accounts receivable	1,132
Prepaid expenses and deposits	137
Linen in service	970
Accounts payable and accrued liabilities	(1,119)
Lease liabilities	(1,176)
Deferred income taxes	204
Property, plant and equipment <sup>(1)</sup>	5,923
Intangible assets	2,450
Net identifiable assets acquired	8,521
Goodwill	3,790
Net assets acquired	\$ 12,311

(1) Includes ROUA from the Canadian Division of \$1,176 comprised of buildings of \$964 and vehicles of \$212

The provisional intangible assets acquired are made up of \$2,450 for the customer contracts along with related relationships and customer lists. The goodwill is attributable to the workforce, and the efficiencies and synergies created between the existing business of the Corporation and the acquired business. Goodwill will not be deductible for tax purposes.

**a) Contingent consideration**

The estimated fair value of payment has been classified as contingent consideration by exercising significant judgment as to whether it should be classified as such, or as remuneration to the former owner, who will be employed subsequent to the close of the transaction. The Corporation has determined by considering all relevant factors included in the agreements as it pertains to employment terms, valuation of the business, and other relevant terms that the additional consideration is most appropriately reflected as contingent consideration.

In the event that a certain EBITDA target is achieved by Paranet for the twelve month period ended August 31, 2023, additional undiscounted consideration of up to \$1,890 will payable in cash during the fourth quarter of 2023. The potential undiscounted amount payable within the agreement will only be paid should the EBITDA target be achieved. Should the EBITDA target not be achieved no payment will be made.

The fair value of the contingent consideration of \$945 was estimated by considering the probability-adjusted future expected cash flows in regards to Paranet achieving the target that would result in consideration being paid. The impact of discounting those future cash flows was not considered because the impact would be nominal.

Since the estimated future cash flows and probability of achieving the EBITDA target are an unobservable input, the fair value of the contingent consideration is classified as a level 3 fair value measurement.

**b) Acquisition related costs**

For the period ended March 31, 2023, \$199 in professional fees associated with the Acquisition has been included in Corporate expenses.

**c) Revenue and profit information**

The acquired business contributed revenues of \$774 to the Corporation for the period from March 1, 2023 to March 31, 2023. If the Acquisition had occurred on January 1, 2023, consolidated pro-forma revenue for the period ended March 31, 2023 would have been \$72,201.

The acquired business contributed net income of \$73 to the Corporation for the period from March 1, 2023 to March 31, 2023. If the Acquisition had occurred on January 1, 2023, consolidated pro-forma net income for the period ended March 31, 2023 would have been \$2,148.

These amounts have been calculated using Paranet's results and adjusting them for differences in the accounting policies between the Corporation and Paranet as it pertains to property, plant and equipment. The Corporation follows the requirements of IFRS 16 whereas Paranet previously reported under ASPE, the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2023, together with the consequential tax effects.



### **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.

### **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 6.7% in March 2023. As a result of this 3% increase, total interest rate expense for the period ended March 31, 2023 is \$403k higher than it would have been had the equivalent rates been in place as for Q1 2022.

### **Capital Investment Plan**

For fiscal 2023, the Corporation's planned capital spending is expected to be approximately \$6.0 to \$8.0 million on a consolidated basis, excluding the acquisition of Paranet. 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.

### **Economic Conditions**

Since 2020, due to changing government restrictions to mitigate the ongoing COVID-19 pandemic, supply chain disruption, geo political events impacting key inputs such as natural gas, electricity and diesel and inflationary impacts to labour and materials the Corporation has faced varying degrees of financial impact within Canada and the UK. 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 and until such time as labour markets stabilize the Corporation will continue to be impacted financially by these conditions.

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.

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.

## 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 as well as Q1 2023. The Corporation continues to pursue price increases to offset inflation-related costs and anticipates that 2023 results will reflect the impact of price increases secured in the later part of Q4 2022 as well as in Q1 2023 and into Q2 2023.

In 2022, management was 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 by streamlining processes impacted by the transition of new AHS business and stabilizing its labour force.

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 increased approximately 2.5 percentage points from historical levels for 2022. As we move through 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 negotiated price increases and efficiencies gains have been achieved 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 Paranet, 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 March 31,					
<i>(thousands, except percentages and per share amounts)</i>		Canadian Division	UK Division		Canadian Division	UK Division	
Category	Indicator	2023	2023	2023	2022	2022	2022
Growth	EBITDA <sup>(1)</sup>	24.5%	313.3%	46.3%	-31.4%	49.1%	-29.8%
	Revenue	12.7%	25.3%	15.2%	10.1%	319.0%	29.0%
	Distributable cash flow <sup>(2)</sup>			43.0%			-33.5%
Profitability	EBITDA <sup>(1)</sup>	\$ 9,358	\$ 975	\$ 10,333	\$ 7,519	\$ (457)	\$ 7,062
	EBITDA margin	16.9%	6.4%	14.6%	15.3%	-3.7%	11.5%
	Net earnings (loss)	\$ 2,245	\$ (245)	\$ 2,000	\$ 1,429	\$ (1,875)	\$ (446)
Stability	Debt to total capital <sup>(3)</sup>			23.4%			16.9%
	Unutilized line of credit			\$ 44,425			\$ 61,043
	Cash on hand			\$ 957			\$ 1,128
	Payout ratio			63.1%			89.9%
	Dividends declared per share			\$ 0.300			\$ 0.300
Cost containment	Wages and benefits	40.1%	35.5%	39.1%	40.5%	38.5%	40.1%
	Utilities	6.8%	14.6%	8.5%	6.6%	19.5%	9.2%
	Delivery	11.9%	16.4%	12.8%	12.1%	18.9%	13.4%
	Expenses included in EBITDA	83.1%	93.6%	85.4%	84.7%	103.7%	88.5%

(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)	2023		2022			2021		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Healthcare revenue	43,823	43,963	42,683	43,523	43,237	41,554	39,227	42,712
Hospitality revenue	26,960	26,708	30,945	27,367	18,197	20,656	22,266	9,963
Total revenue	70,783	70,671	73,628	70,890	61,434	62,210	61,493	52,675
Expenses included in EBITDA	60,450	61,945	62,607	61,207	54,372	53,282	49,896	40,470
EBITDA <sup>(1)</sup>	10,333	8,726	11,021	9,683	7,062	8,928	11,597	12,205
EBITDA as a % of revenue (EBITDA margin)	14.6%	12.3%	15.0%	13.7%	11.5%	14.4%	18.9%	23.2%
Depreciation and amortization	6,321	6,505	6,466	6,570	6,527	6,628	6,784	6,710
Finance expense	1,473	1,639	1,340	1,001	1,000	800	883	901
Earnings (loss) before income taxes	2,539	582	3,215	2,112	(465)	1,500	3,930	4,594
Income tax recovery (expense)	539	302	759	496	(19)	1	1,782	1,183
Net earnings (loss)	2,000	280	2,456	1,616	(446)	1,499	2,148	3,411
Net earnings (loss) as a % of revenue"	2.8%	0.4%	3.3%	2.3%	-0.7%	2.4%	3.5%	6.5%
Basic earnings (loss) per share	0.187	0.026	0.230	0.152	(0.042)	0.141	0.202	0.322
Diluted earnings (loss) per share	0.186	0.026	0.228	0.151	(0.042)	0.140	0.201	0.320
Total assets	337,277	325,760	321,527	329,677	325,041	332,519	330,494	326,157
Total long-term financial liabilities	112,628	105,744	100,408	106,327	99,302	102,617	97,582	100,306
Funds provided by operations	9,308	1,049	11,530	3,838	9,713	7,743	12,543	3,047
Long-term debt (excludes lease liabilities)	53,713	45,166	39,141	45,224	36,615	37,973	38,270	40,696
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)	2023		2022				2021		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Healthcare revenue	42,243	42,419	41,197	41,936	41,687	39,835	37,564	41,107	
Hospitality revenue	13,256	12,032	13,870	11,347	7,547	8,211	8,605	3,049	
Total revenue	55,499	54,451	55,067	53,283	49,234	48,046	46,169	44,156	
Expenses included in EBITDA	46,141	46,707	46,037	45,212	41,715	40,258	36,659	32,734	
EBITDA <sup>(1)</sup>	9,358	7,745	9,030	8,071	7,519	7,788	9,510	11,422	
EBITDA as a % of revenue (EBITDA margin)	16.9%	14.2%	16.4%	15.1%	15.3%	16.2%	20.6%	25.9%	
Net earnings	2,245	822	2,122	1,669	1,429	2,043	2,944	4,460	
Net earnings as a % of revenue	4.0%	1.5%	3.9%	3.1%	2.9%	4.3%	6.4%	10.1%	
Basic earnings per share	0.210	0.077	0.199	0.157	0.134	0.192	0.277	0.421	
Diluted earnings per share	0.209	0.076	0.197	0.156	0.134	0.191	0.275	0.418	

(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)	2023		2022				2021		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Healthcare revenue	1,580	1,544	1,486	1,587	1,550	1,719	1,663	1,605	
Hospitality revenue	13,704	14,676	17,075	16,020	10,650	12,445	13,661	6,914	
Total revenue	15,284	16,220	18,561	17,607	12,200	14,164	15,324	8,519	
Expenses included in EBITDA	14,309	15,239	16,570	15,995	12,657	13,024	13,237	7,736	
EBITDA <sup>(1)</sup>	975	981	1,991	1,612	(457)	1,140	2,087	783	
EBITDA as a % of revenue (EBITDA margin)	6.4%	6.0%	10.7%	9.2%	-3.7%	8.0%	13.6%	9.2%	
Net (loss) income	(245)	(542)	334	(53)	(1,875)	(544)	(796)	(1,049)	
Net (loss) income as a % of revenue	-1.6%	-3.3%	1.8%	-0.3%	-15.4%	-3.8%	-5.2%	-12.3%	
Basic (loss) earnings per share	(0.023)	(0.051)	0.031	(0.005)	(0.176)	(0.051)	(0.075)	(0.099)	
Diluted (loss) earnings per share	(0.023)	(0.050)	0.031	(0.005)	(0.175)	(0.051)	(0.074)	(0.098)	

Quarterly Financial Information - UK Division (in local currency Sterling £) (thousands, except percentages and per share amounts)	2023		2022				2021		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Healthcare revenue	962	967	987	1,005	912	1,011	959	935	
Hospitality revenue	8,341	9,200	11,327	10,153	6,267	7,325	7,877	4,028	
Total revenue	9,303	10,167	12,314	11,158	7,179	8,336	8,836	4,963	
Expenses included in EBITDA	8,711	9,553	10,994	10,134	7,448	7,665	7,633	4,505	
EBITDA <sup>(1)</sup>	592	614	1,320	1,024	(269)	671	1,203	458	
EBITDA as a % of revenue (EBITDA margin)	6.4%	6.0%	10.7%	9.2%	-3.7%	8.0%	13.6%	9.2%	
Net (loss) income	(151)	(341)	221	(32)	(1,103)	(321)	(458)	(610)	
Net (loss) income as a % of revenue	-1.6%	-3.3%	1.8%	-0.3%	-15.4%	-3.9%	-5.2%	-12.3%	
Basic (loss) earnings per share	(0.014)	(0.032)	0.021	(0.003)	(0.104)	(0.030)	(0.043)	(0.058)	
Diluted (loss) earnings per share	(0.014)	(0.032)	0.020	(0.003)	(0.103)	(0.030)	(0.043)	(0.057)	

(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 period ended March 31, 2023, K-Bro's consolidated revenue increased by 15.2% to \$70.8 million from \$61.4 million in the comparative period of 2022. This increase was primarily a result of COVID-19 pandemic restrictions being eased, the completion of the AHS transition, and price increases across various markets to offset inflation-related costs. In 2023, approximately 61.9% of K-Bro's consolidated revenue was generated from healthcare institutions, which is lower compared to 70.4% in 2022. This is primarily related to the recovery of hospitality activity following the easing of COVID-19 pandemic restrictions.

Consolidated EBITDA increased in the year to \$10.3 million from \$7.1 million in 2022, which is an increase of 46.3%. The consolidated EBITDA margin increased to 14.6% in Q1 2023 compared to 11.5% in Q1 2022. The increase in margin is primarily related to price increases, the natural gas strategy implemented in the UK in Q2 2022, labour efficiencies and improved client activity which also yielded delivery cost efficiencies.

Net earnings increased by \$2.4 million or 548.4% from \$-0.4 million in 2022 to \$2.0 million in 2023, and net earnings as a percentage of revenue increased by 3.5% to 2.8% in 2023 from -0.7% in 2022. The change in net earnings is primarily related to the flow through items in EBITDA discussed above, offset by higher finance costs related to increased interest rates for the revolving credit facility, and higher income tax expense.

## Operating Expenses

On a year-to-date basis, wages and benefits increased by \$3.0 million to \$27.7 million compared to \$24.7 million in the comparative period of 2022, and as a percentage of revenue decreased by 1.0 percentage points to 39.1%. The decrease as a percentage of revenue is primarily related to stabilization of labour in certain markets, production efficiencies gained from the AHS transition and price increases secured across various markets.

On a year-to-date basis, linen remained constant at \$7.4 million compared to the comparative period of 2022, and as a percentage of revenue decreased by 1.5 percentage points to 10.5%. 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.

On a year-to-date basis, utilities increased by \$0.4 million to \$6.0 million compared to \$5.6 million in the comparative period of 2022, and as a percentage of revenue decreased by 0.7 percentage points to 8.5%. The decrease as a percentage of revenue is primarily related to the natural gas hedge strategy implemented in the UK in Q2 2022.

On a year-to-date basis, delivery increased by \$0.9 million to \$9.1 million compared to \$8.2 million in the comparative period of 2022, and as a percentage of revenue decreased by 0.6 percentage points to 12.8%. The decrease as a percentage of revenue is primarily related to improved client activity which yielded delivery cost efficiencies.

On a year-to-date basis, occupancy costs increased by \$0.3 million to \$1.3 million compared to \$1.0 million in the comparative period of 2022, and as a percentage of revenue remained relatively constant at 1.8%. The increase as a percentage of revenue is primarily related to increased facility rent as well as increased property tax and insurance costs.

On a year-to-date basis, materials and supplies increased by \$0.5 million to \$3.1 million compared to \$2.6 million in the comparative period of 2022, and as a percentage of revenue remained constant at 4.3%.

On a year-to-date basis, repairs and maintenance increased by \$0.7 million to \$2.9 million compared to \$2.2 million in the comparative period of 2022, and as a percentage of revenue increased by 0.3 percentage points to 4.0%. The increase as a percentage of revenue is primarily related to the timing of maintenance activities.

On a year-to-date basis, corporate costs increased by \$0.4 million to \$3.0 million compared to \$2.6 million in the comparative period of 2022, and as a percentage of revenue remained relatively constant at 4.3%.

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 2023, cash generated by operating activities was \$9.3 million with a debt to total capitalization of 23.4%. The change in cash from operations is primarily due to strong cash flow from operations and timing of cash receipts and payments of supplier invoices. 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 \$44.4 million with respect to its revolving credit facility is sufficient for the Corporation's operations in the foreseeable future. However, management intends to continually assess its opportunities to maintain a conservative amount of leverage and balance sheet flexibility in the short and long-term basis in order to ensure that sufficient capital is available for future growth needs.

During 2023, cash generated by financing activities was \$3.2 million compared to cash used in financing activities of \$6.4 million in 2022. Financing activities consisted of net repayment of the revolving credit facility, dividends paid to Shareholders and principal elements of lease payments.

During 2023, cash used in investing activities was \$14.2 million compared to \$3.2 million in 2022. Investing activities are primarily related to the acquisition of Parinet described in Note 12 of the Interim Condensed Consolidated Financial Statements for the period ended March 31, 2023.

### Contractual Obligations

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

(thousands)	Payments due by year				
	Total	Remainder of 2023	2024 to 2025	2026 to 2027	Subsequent
Long-term debt	\$ 53,713	-	-	53,713	-
Lease liabilities	\$ 61,426	8,998	18,424	12,896	21,108
Utility commitments	\$ 25,273	10,439	13,339	1,495	-
Linen purchase obligations	\$ 9,766	9,766	-	-	-
Property, plant and equipment commitments	\$ 3,401	3,401	-	-	-

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, 2023. 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

	Three Months Ended March 31, 2023	Year Ended December 31, 2022
<i>(thousands, except percentages)</i>		
Cash and cash equivalents	\$ (957)	\$ (2,636)
Long-term debt (excludes lease liabilities)	53,713	45,166
Shareholders' equity	177,136	176,542
<b>Total capital</b>	<b>\$ 229,892</b>	<b>\$ 219,072</b>
Debt to total capital (see <i>Terminology</i> for definition)	<b>23.4%</b>	20.6%

For the period ended March 31, 2023, the Corporation had a debt to total capital of 23.4%, unused revolving credit facility of \$44.4 million and has not incurred any events of default under the terms of its credit facility.

As at March 31, 2023, the Corporation had net working capital of \$33.5 million compared to its working capital position of \$36.6 million at December 31, 2022. The decrease in working capital is primarily attributable to additional requirements driven mainly from increased client activity as a result of the timing of supplier 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	2023		2022	
			Amount per Share	Total Amount (1), (3), (5), (7)	Amount per Share	Total Amount (2), (4), (6), (8)
January	February 15	10,773,190	\$ 0.10000	\$ 1,077	\$ 0.10000	\$ 1,072
February	March 15	10,773,190	0.10000	1,077	0.10000	1,072
March	April 14	10,773,190	0.10000	1,077	0.10000	1,072
Q1			\$ 0.30000	\$ 3,231	\$ 0.30000	\$ 3,216

(1) The total amount of dividends declared was \$0.10000 per share for a total of \$1,077,319 per month for January - March 2023; when rounded in thousands, \$3,231 of dividends were declared in Q1 2023.

(2) 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.

For the period ended March 31, 2023, the Corporation declared a \$0.300 per Common Share dividend compared to \$0.477 per Common Share of Distributable Cash Flow (see "Terminology"). The actual payout ratio was 63.1%.

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)	2023			2022			2021		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Cash provided by operating activities	\$ 9,308	\$ 1,049	\$ 11,530	\$ 3,838	\$ 9,713	\$ 7,743	\$ 12,543	\$ 3,047	
<i>Deduct (add):</i>									
Net changes in non-cash working capital items <sup>(1)</sup>	606	(4,994)	1,204	(4,929)	3,098	(1,358)	1,978	(7,022)	
Share-based compensation expense	505	410	438	428	512	417	486	439	
Maintenance capital expenditures <sup>(2)</sup>	936	706	520	1,078	690	281	426	275	
Principal elements of lease payments	2,144	1,908	1,834	1,821	1,834	1,808	1,765	1,742	
<b>Distributable cash flow</b>	<b>\$ 5,117</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>	
Dividends declared	3,231	3,227	3,234	3,228	3,216	3,216	3,216	3,211	
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>	63.1%	106.9%	42.9%	59.3%	89.9%	48.8%	40.8%	42.2%	
Weighted average shares outstanding during the period, basic	10,707	10,675	10,659	10,650	10,641	10,622	10,611	10,603	
Weighted average shares outstanding during the period, diluted	10,733	10,751	10,750	10,716	10,703	10,701	10,700	10,673	
<b>Trailing-twelve months ("TTM")</b>									
Distributable cash flow	21,110	19,572	23,148	23,502	25,675	27,476	27,767	30,929	
Dividends	12,920	12,905	12,894	12,875	12,859	12,846	12,833	12,820	
Payout ratio <sup>(3)</sup>	61.2%	65.9%	55.7%	54.8%	50.1%	46.8%	46.2%	41.4%	

(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 March 31, 2023, the Corporation had 10,773,190 Common Shares outstanding. Basic and diluted weighted average number of Common Shares outstanding for 2023 were 10,706,687 and 10,733,419, respectively (10,641,146 and 10,702,507, respectively, for the comparative 2022 periods).

In accordance with the Corporation's Long Term Incentive ("LTI") plan and in conjunction with the performance of the Corporation in the 2022 fiscal year, on April 13, 2023 the Compensation, Nominating and Corporate Governance Committee approved LTI compensation of \$1.8 million (2022 – \$1.8 million) to be paid as Common Shares issued from treasury. As at March 31, 2023, the value of the Common Shares held by the LTI custodian was \$1.8 million (December 31, 2022 – \$1.8 million) which was comprised of 65,811 in unvested Common Shares (December 31, 2022 – 64,552) with a nil aggregate cost (December 31, 2022 – \$nil).

As at May 10, 2023 there were 10,773,190 Common Shares issued and outstanding including 65,811 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 March 31, 2023, the Corporation incurred fees totaling \$18,000 (2022 – \$18,000).

## **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 2022 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.

### **Economic Conditions**

Since 2020, due to changing government restrictions to mitigate the ongoing COVID-19 pandemic, supply chain disruption, geo political events impacting key inputs such as natural gas, electricity and diesel and inflationary impacts to labour and materials the Corporation has faced varying degrees of financial impact within Canada and the UK. 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 and until such time as labour markets stabilize the Corporation will continue to be impacted financially by these conditions.

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.

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.

## 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.

<i>(thousands)</i>	Three Months Ended March 31,	
	2023	2022
Net earnings (loss)	\$ 2,000	\$ (446)
Add:		
Income tax expense	539	(19)
Finance expense	1,473	1,000
Depreciation of property, plant and equipment	6,251	5,856
Amortization of intangible assets	70	671
<b>EBITDA</b>	<b>\$ 10,333</b>	<b>\$ 7,062</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 March 31, 2023, 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, 2023. 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 IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction, that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023.
- Amendments to IAS 12, Accounting Policies, relates to a temporary exception to the requirements regarding deferred tax assets and liabilities related to pillar two income taxes

## **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 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 March 31, 2023, there are no material changes in the Corporation's risks or risk management activities since December 31, 2022. 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 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 period ended March 31, 2023, 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 period ended March 31, 2023, 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 March 31, 2023, 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.

### Limitation on Scope of Design

K-Bro has limited the scope of design of DCP and our Internal Controls over Financial Reporting (ICFR) to exclude controls, policies and procedures of Paranet acquired on March 1, 2023. The scope limitation is in accordance with section 3.3(1)(b) of NI 52-109 which allows an issuer to limit its design of ICFR to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days before the end of the fiscal period.

<b>Paranet</b> (millions)	<b>As at March 31, 2023</b>
Current assets	\$ 2,330
Non-current assets	\$ 12,084
Current liabilities	\$ 1,177
Non current liabilities	\$ 1,176

<b>Paranet</b> (millions)	<b>Period Ended March 31, 2023</b>
Revenue	\$ 774
Expense	\$ 675
Income from Operations	\$ 99

Additional information regarding K-Bro including required securities filings are available on our website at [www.k-broline.com](http://www.k-broline.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-broline.com](http://www.k-broline.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 »).