CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DEC 31 2017

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March 14, 2018

Independent Auditor's Report

To the Shareholders of
K-Bro Linen Inc.

We have audited the accompanying consolidated financial statements of K-Bro Linen Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of K-Bro Linen Inc. and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Consolidated Statements of Financial Position

(thousands of Canadian dollars)

	December 31, 2017		December 31, 2016	
ASSETS				
Current assets				
Cash and cash equivalents	$	11,276	$	-
Accounts receivable		29,718		18,451
Income tax receivable		2,281		-
Prepaid expenses and deposits		3,309		1,472
Linen in service (note 7)		21,456		11,511
		68,040		31,434
Property, plant and equipment (note 8)		171,668		113,258
Intangible assets (note 9)		16,979		3,141
Goodwill (note 10)		38,526		20,456
	$	295,213	$	168,289
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$	34,143	$	16,270
Income taxes payable		838		596
Dividends payable to shareholders		1,051		802
		36,032		17,668
Long-term debt (note 12)		42,780		25,800
Unamortized lease inducements (note 14)		2,583		1,863
Provisions(note 11)		2,393		-
Deferred income taxes (note 15)		9,838		6,286
	$	93,626	$	51,617
SHAREHOLDERS' EQUITY				
Share capital		199,772		109,390
Contributed surplus		1,952		1,944
Retained earnings (deficit)		(65)		5,338
Accumulated other comprehensive loss		(72)		-
	$	201,587	$	116,672
Contingencies and commitments (note 16)				
	$	295,213	$	168,289

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors

/s/Ross S. Smith

Ross S. Smith
Director

/s/ Matthew Hills

Matthew Hills
Director

Consolidated Statements of Earnings & Comprehensive Income

(thousands of Canadian dollars, except share and per share amounts)

Years ended December 31	2017	2016
Revenue	$ 170,559	$ 159,089
Expenses		
Wages and benefits (note 27)	70,352	65,075
Linen (note 7)	18,998	17,547
Utilities	10,393	9,776
Delivery (note 27)	18,292	15,965
Occupancy costs	6,460	5,313
Materials and supplies	5,537	4,808
Repairs and maintenance	5,627	4,855
Corporate	10,879	7,514
Loss on disposal of property, plant and equipment (note 28)	36	105
	146,574	130,958
EBITDA (note 28)	23,985	28,131
Other expenses		
Depreciation of property, plant and equipment (note 8)	11,606	9,235
Amortization of intangible assets (note 9)	1,767	1,790
Finance expense (note 13)	1,133	739
	14,506	11,764
Earnings before income taxes	9,479	16,367
Current income tax expense	2,137	4,467
Deferred income tax expense	1,624	373
Income tax expense	3,761	4,840
Net earnings	$ 5,718	$ 11,527
Other comprehensive loss		
Items that may be subsequently reclassified to earnings:		
Foreign currency translation differences on foreign operations	$ (72)	$ -
Total comprehensive income	$ 5,646	$ 11,527
Net earnings per share (note 18) :		
Basic	$ 0.63	$ 1.45
Diluted	$ 0.63	$ 1.44
Weighted average number of shares outstanding:		
Basic	9,083,693	7,955,026
Diluted	9,114,874	7,986,729

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)

	Total Share Capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive loss	Total equity
As at January 1, 2017	$ 109,390	$ 1,944	$ 5,338	$ -	$ 116,672
Total comprehensive income	-	-	5,718	(72)	5,646
Net proceeds from common shares issued (note 17)	87,655	-	-	-	87,655
Deferred income tax impact of share issuance (note 17)	1,227	-	-	-	1,227
Dividends declared (note 20)	-	-	(11,121)	-	(11,121)
Employee share based compensation expense	-	1,508	-	-	1,508
Shares vested during the year	1,500	(1,500)	-	-	-
As at December 31, 2017	$ 199,772	$ 1,952	$ (65)	$ (72)	$ 201,587

	Total Share Capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total equity
As at January 1, 2016	$ 108,079	1,737	3,424	-	$ 113,240
Total comprehensive income	-	-	11,527	-	11,527
Dividends declared (note 20)	-	-	(9,613)	-	(9,613)
Employee share based compensation expense	-	1,518	-	-	1,518
Shares vested during the year	1,311	(1,311)	-	-	-
As at December 31, 2016	$ 109,390	$ 1,944	$ 5,338	$ -	$ 116,672

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flow

(thousands of Canadian dollars)

Years ended December 31	2017	2016
OPERATING ACTIVITIES		
Net earnings	$ 5,718	$ 11,527
Depreciation of property, plant and equipment (note 8)	11,606	9,235
Amortization of intangible assets (note 9)	1,767	1,790
Lease inducements, net of amortization	401	1,167
Accretion expense	42	-
Employee share based compensation expense	1,508	1,518
Loss on disposal of property, plant and equipment	36	105
Deferred income taxes	1,624	373
	22,702	25,715
Change in non-cash working capital items (note 21)	(3,922)	(1,194)
Cash provided by operating activities	18,780	24,521
FINANCING ACTIVITIES		
Net proceeds of revolving debt	16,980	23,451
Net proceeds from issuance of common shares (note 17)	87,655	-
Dividends paid to shareholders	(10,872)	(9,610)
Cash provided by financing activities	93,763	13,841
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (note 8)	(44,494)	(38,367)
Proceeds from disposal of property, plant and equipment	-	5
Acquisition of business (note 6)	(56,774)	
Cash used in investing activities	(101,268)	(38,362)
Change in cash and cash equivalents during the year	11,275	-
Effect of exchange rate changes on cash	1	
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	$ 11,276	$ -
Supplementary cash flow information		
Interest paid	$ 703	$ 631
Income taxes paid	$ 5,000	$ 4,062

The accompanying notes are an integral part of these consolidated financial statements.

K-Bro Linen Inc. (the "Corporation" or “K-Bro”) is incorporated in Canada under the Business Corporations Act (Alberta). K-Bro is the largest owner and operator of laundry and linen processing facilities in Canada and a market leader for laundry and textile services in Scotland and the North East of England. K-Bro and its wholly owned subsidiaries, operate across Canada and the United Kingdom (“UK”), provide a range of linen services to healthcare institutions, hotels and other commercial organizations 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, including K-Bro Linen Systems Inc., Buanderie HMR and Les Buanderies Dextraze, in ten Canadian cities: Québec City, Montréal, Toronto, Regina, Saskatoon, Prince Albert, Edmonton, Calgary, Vancouver and Victoria.

The Corporation’s operations include Fishers Topco Ltd. ("Fishers") which was acquired by K-Bro on November 27, 2017. Fishers was established in 1900 and is an 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. Fishers' client base includes major hotel chains and prestigious venues across Scotland and the North East of England. The company operates in seven cities, in Scotland and the North East of England with facilities in Cupar, Perth, Newcastle, Livingston, Inverness and Coatbridge.

The Corporation’s common shares are traded on the Toronto Stock Exchange under the symbol “KBL”. The address of the Corporation’s registered head office is 14903 – 137 Avenue, Edmonton, Alberta, Canada.

These audited annual consolidated financial statements (the “consolidated financial statements”) were approved and authorized for issuance by the Board of Directors (“the Board”) on March 14, 2018.

1 Basis of Presentation

The consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (IFRS) as published in the CPA Canada Handbook. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in Note 5.

2 Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

a) Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention.

b) Principles of Consolidation

The consolidated financial statements include the Corporation, its wholly owned subsidiaries and the long-term incentive plan trust (note 2(q) (ii)). All intercompany balances and transactions have been eliminated upon consolidation.

c) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less.

Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value.

d) Linen in Service

Linen in service is stated at cost less accumulated depreciation. The cost is based on the expenditures that are directly attributable to the acquisition of linen, amortization commences when linen is put into service, with operating room linen amortized across its estimated service life of 24 months and general linen amortized based on usage which results in an estimated average service life of 24 months.

e) Revenue Recognition

Revenue from linen management and laundry services is primarily based on written service agreements whereby the Corporation agrees to collect, launder, deliver and replenish linens. The Corporation recognizes revenue in the period in which the services are provided.

f) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be reliably measured. The carrying amount of a replaced part is derecognized. Repairs and maintenance are charged to the statement of earnings during the financial period in which they are incurred.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

The major categories of property, plant and equipment are depreciated on a straight-line basis to allocate their cost over their estimated useful lives as follows:

Asset	Rate
Buildings	15 - 25 years
Laundry equipment	7 - 20 years
Office equipment	2 - 5 years
Delivery equipment	5 - 10 years
Computer equipment	2 years
Leasehold improvements	Lease term

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset.

g) Impairment of Financial Assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss equal to the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

h) Impairment of Non-Financial Assets

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating unit or “CGU”). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The Corporation evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

i) Intangible Assets

Intangible assets acquired in a business combination are recorded at fair value at the acquisition date. Subsequently they are carried at cost less accumulated amortization and accumulated impairment losses.

The major categories of intangible assets are depreciated on a straight-line basis to allocate their cost over their estimated useful lives as follows:

Asset	Rate
Customer contracts	1 - 20 years
Computer software	5 years
Brand	Indefinite

These estimates are reviewed at least annually and are updated if expectations change as a result of changing client relationships or technological obsolescence.

j) Income Taxes

The tax expense for the year comprises current and deferred tax. Tax is recognized in statement of earnings, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax provision is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date of the taxation authority where the Corporation operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

k) Business Combinations

Business combinations are accounted for using the acquisition method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred.

l) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their estimated fair values at the acquisition date. Goodwill is allocated as of the date of the business combination. Goodwill is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate a potential impairment.

Goodwill acquired through a business combination is allocated to each CGU, or group of CGUs, that are expected to benefit from the related business combination. A CGU represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

m) Volume Rebates

The Corporation earns revenue from linen management and laundry services based on written service agreements whereby K-Bro has agreed to collect, launder, deliver and replenish linens. K-Bro recognizes revenue in the period in which the services are provided. Volume rebates, where applicable, are recorded based on annualized expected volumes when it is reasonable that the criteria are likely to be met. Based on past experience, management believes that volumes utilized for any estimates are reasonable and would not expect a material deviation to the balance of accrued liabilities or revenue.

n) Earnings Per Share

Basic earnings per share (“EPS”) is calculated by dividing net earnings for the period attributable to Shareholders of the Corporation by the weighted average number of Common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of common shares included within the weighted average is computed using the treasury stock method. The Corporation’s potentially dilutive Common shares are comprised of long-term incentive plan equity compensation granted to officers and key employees (notes 2(q)(ii)).

o) Foreign Currency Translation

The consolidated financial statements are presented in Canadian dollars. The Corporation's operations in Canada have a functional currency of Canadian dollars. The Corporation's operations in the UK have a functional currency of pounds sterling.

i. Translation of foreign entities

The functional currency for each of the Corporation’s subsidiaries is the currency of the primary economic environment in which it operates. Operations with foreign functional currencies are translated into the Corporation’s presentation currency in the following manner:

- Monetary and non-monetary assets and liabilities are translated at the spot exchange rate in effect at the reporting date;
- Revenue and expense items (including depreciation and amortization) are translated at average rates of exchange prevailing during the period, which approximate the exchange rates on the transaction dates;
- Impairment of assets are translated at the prevailing rate of exchange on the date of the impairment recognition, and;
- Exchange gains and losses that result from translation are recognized as a foreign currency translation difference in accumulated other comprehensive income.

ii. Translation of transactions and balances

Transactions in currencies other than the entity’s functional currency are recognized at the rates of exchange prevailing at the date of the transaction as follows:

- Monetary assets and liabilities are translated at the exchange rate in effect at the reporting date;
- Non-monetary items are translated at historical exchange rates; and
- Revenue and expense items are translated at the average rates of exchange, except depreciation and amortization, which are translated at the rates of exchange applicable to the related assets, with any gains or losses recognized

within "finance expense" in the consolidated statements of earnings & comprehensive income (loss).

p) Lease Inducements

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Tenant allowances and lease inducements are deferred when credited or received and amortized on a straight-line basis as a reduction of rent expense over the term of the related lease. For lease contracts with escalating lease payments, total rent expense for the lease term is expensed on a straight-line basis over the lease term. The difference between rent expensed and amounts paid is recorded as an increase or deferral in unamortized lease inducements.

q) Employee Benefits

i) Post-employment benefit obligations

The Corporation contributes on behalf of its employees to their individual Registered Retirement Savings Plans subject to an annual maximum of 10% of gross personal earnings. The Corporation accounts for contributions as an expense in the period that they are incurred. The Corporation does not provide any other post-employment or post-retirement benefits.

ii) Existing equity-based compensation plan of the Corporation

On June 16, 2011, the Shareholders of the Corporation approved a new Long-term Incentive Plan ("LTI"). Under the LTI, awards are granted annually in respect of the prior fiscal year to the eligible participants based on a percentage of annual salary. The amount of the award (net of withholding obligations) is satisfied by issuing treasury shares to be held in trust by the trustee pursuant to the terms of the LTI. All awards issued under the provisions of the LTI are recorded as compensation expense.

Subject to the discretion of the Compensation, Nominating and Corporate Governance Committee of the Board of Directors, one-quarter of a Participant's grant will vest on the Determination Date (defined as the first May 15th following the date that the Directors of the Corporation approve the audited consolidated financial statements of the Corporation for the prior year). The remaining three-quarters of the Participant's grant will vest on November 30th following the second anniversary of the Determination Date.

If a change of control occurs, all LTI Shares held by the Trustee in respect of unvested grants will vest immediately. LTI participants are entitled to receive dividends on all common shares granted under the LTI whether vested or unvested. In most circumstances, unvested common shares held by the LTI trustee for a participant will be forfeited if the participant resigns or is terminated for cause prior to the applicable vesting date, and those common shares will be disposed of by the trustee to K-Bro for no consideration and such Common shares shall thereupon be cancelled. If a participant is terminated without cause, retires or resigns on a basis which constitutes constructive dismissal, the participant will be entitled to receive his or her unvested common shares on the regular vesting schedule under the LTI.

r) Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the

purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition. Transaction costs are recognized immediately in income or are capitalized, depending upon the nature of the transaction and the associated instrument.

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.

Loans, receivables and other liabilities

Loans, receivables and other liabilities are accounted for at amortized cost using the effective interest method.

The Corporation has made the following classifications:

	Classification	Measurement
Financial assets		
Accounts receivable	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Dividends payable	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

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.

3 Significant accounting policies

On January 1, 2017 the Corporation adopted the amendments to IAS 7, Statement of Cash Flows, and amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses. IAS 7 was amended to improve information provided to users of financial statements about an entity's financing activities. IAS 12 was amended to provide further clarity and examples in the practice around the recognition of a deferred tax asset that is related to a debt instrument measured at fair value. Adoption of the amendments did not result in any changes to the presentation or disclosures in the financial statements.

On October 1, 2017 the Corporation adopted a policy to account for asset retirement obligations to restore the premises of its leased plants. Previously the effect of applying this policy was immaterial. The present value of the obligation is recognized in the period in which the obligations are incurred. The estimated present value of the obligation is the discounted expected future cash flows to settle the obligation at a pre-tax risk free interest rate that reflects current market assessments of the time value of money. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over the life of the lease or estimated life of the asset, whichever is shorter. In subsequent periods, the asset retirement obligation is adjusted for the passage of time through accretion expense, which is recognized as a finance cost and for changes in the amount or timing of the underlying future cash flows. Changes in the estimated future costs or in the discount rate applied are added to, or deducted from, the cost of the asset. Actual expenditures are charged against the provision when incurred with any difference between actual and estimated costs recorded in net earnings.

4 New Standards and interpretations not yet adopted

The following standards have been issued but have not yet been applied in preparing the interim condensed consolidated financial statements.

- IFRS 15, Revenue from Contracts with Customers, was issued in May 2014 by the IASB and supersedes IAS 18, "Revenue", IAS 11 "Construction Contracts" and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The new standard introduces expanded disclosure requirements. The Corporation has undertaken a detailed review of contracts entered with key customers and other forms of agreements with customers and has evaluated the provisions under the five-step model specified by the new guidance. In addition, the Corporation continues to monitor additional interpretive guidance related to the new standard as it becomes available, as well as comparing the conclusions made on specific interpretative issues to other peers in the industry, to the extent that such information is available. The standard will be implemented by the Corporation in 2018. The Corporation expects the new revenue recognition guidance will not have a material impact on the consolidated financial statements other than additional disclosure requirements. The Corporation currently intends to select the modified retrospective approach with results in the cumulative effect of adoption recognized at the date of initial application at January 1, 2018.

- IFRS 9, Financial Instruments, was issued in July 2014 by the IASB and supersedes IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. IFRS 9 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation has determined the adoption of the standard will not have a material impact to the consolidated financial statements.

- IFRS 16, Leases, was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Corporation is in the process of evaluating the impact that IFRS 16 may have on the financial statements. The standard will affect primarily the accounting for the Corporation's operating leases. The Corporation has not yet determined to what extent these commitments will result in the recognition of assets and liabilities for future payments and how this will affect EBITDA, net earnings and classification of cash flows.

- On June 20, 2016 the IASB issued an amendment to IFRS 2 "Share based Payment" addressing three classification and measurement issues. The amendment clarifies the measurement basis for cash-settled, share based payments and the accounting for modifications that change an award from cash-settled to equity settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly-equity settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share based payment and pay that amount to the tax authority. The amendments are effective for periods beginning on or

after January 1, 2018. The Corporation has determined the adoption of the standard will not have a material impact to the consolidated financial statements.

5 Critical accounting estimates and judgments

The preparation of the Corporation's consolidated financial statements, in conformity with IFRS, requires management of the Corporation to make estimates and assumptions that affect the reported amount 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. Actual results could differ from those estimates.

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.

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

Impairment of goodwill and non-financial assets

The Corporation reviews goodwill at least annually and other non-financial assets when there is any indication that the asset might be impaired. The Corporation applies judgment in assessing the likelihood of renewal of significant contracts included in the intangible assets described in note 9. The Corporation has estimated the fair value of CGUs to which goodwill is allocated based on value in use using discounted cash flow models that required assumptions about future cash flows, margins, and discount rates. Refer to note 10 for more details about methods and assumptions used in estimating net recoverable amount.

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.

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.

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.

Provisions

The Corporation is required to restore the leased premises of its 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 11 for more details about estimation and judgments for this provision.

Business Combinations

In a business combination the Corporation acquires assets and assumes liabilities of an acquired business. Judgement is required to determine the fair values assigned to the tangible and intangible assets acquired and liabilities assumed in the acquisition. Determining fair values involves a variety of assumptions, including revenue growth rates, expected operating income and discount rates. During a measurement period, not to exceed one year, adjustments of the initial estimates may be required to finalize the fair value of assets acquired and liabilities assumed.

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.

6 Business Acquisitions

On November 27, 2017, the Corporation acquired all of the outstanding shares of Fishers Topco Limited ("Fishers"), a United Kingdom-based laundry and linen services company (the "Acquisition"). Fishers' was a private company limited by shares and is incorporated in the United Kingdom. The acquired business consisted of contracts primarily in the hospitality sector in Scotland and the North East of England, which complements the existing business of the Corporation. The business acquisition has been accounted for using the acquisition method, whereby the purchase consideration was allocated to the fair values of the net assets acquired.

The Corporation financed the cash portion of the acquisition, the repayment of Fishers' outstanding debt facilities and the payment of management fees and transaction costs from existing cash resources and existing loan facilities, including an amendment to its existing revolving credit which increased the available limit from $85,000 to $100,000 plus a $25,000 accordion.

In addition, on December 12, 2017 the Corporation entered into an agreement to sell common shares , the net proceeds from the share offering were used to partially pay down the indebtedness that was incurred under the Corporation's amended revolving credit facility to initially fund the Acquisition. For further details regarding the share offering refer to note 17.

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

	2017 in Sterling £ 000's (1)		2017 in Canadian $ 000's (1)	
Cash consideration	£	33,910	$	57,610
Net assets acquired:				
Cash working capital		492		836
Non-cash working capital, net		4,365		7,416
Property, plant & equipment		11,594		19,697
Leasehold inducements		(219)		(372)
Asset retirement obligations		(316)		(537)
Intangible assets		9,200		15,630
Deferred income tax liabilities		(1,860)		(3,160)
Goodwill		10,654		18,100
	£	33,910	$	57,610

1) For the year ended December 31, 2017, $2,831 (in Sterling £1,654) in professional fees associated with the acquisition has been included in Corporate expenses.

As part of the acquired working capital, the Corporation received various accounts receivable which when valued at fair value of $8,307 (in Sterling £4,898) were equivalent to their exchange amounts, all of which are expected to be collectible.

Intangible assets acquired are made up of $4,247 (in Sterling £2,500) for the brand, and $11,383 (in Sterling £6,700) 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.

The acquired business contributed revenues of $4,728 (in Sterling £2,761) and net loss of $2,881 (in Sterling £1,670) to the group for the period from November 27, 2017 to December 31, 2017.

If the acquisition had occurred on January 1, 2017, consolidated pro-forma revenue and net profit for the year ended December 31, 2017 would have been $223,454 and $8,798 respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

- Differences in the accounting policies between the group and the subsidiary; and
- 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 January 1, 2017, together with the consequential tax effects.

Pro-forma net profit includes expenses which are not expected to be recurring as part of normal operations, which include transaction costs incurred in the sale of Fishers' for $972 (in Sterling £568), and loss on disposal of assets of $1,089 (in Sterling £636).

7 Linen in service

	2017	2016
Balance, beginning of year	$ 11,511	$ 11,279
Acquisition of business	7,234	
Additions	21,718	17,779
Amortization charge	(18,998)	(17,547)
Effect of movement in exchange rates	(9)	-
Balance, end of year	$ 21,456	$ 11,511

8 Property, plant and equipment

	Land	Buildings	Laundry Equipment[1]	Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements[2]	Spare Parts	Total
Year ended, December 31, 2016									
Opening net book amount	$ 2,454	$ 17,964	$ 54,316	$ 341	$ 266	$ 539	$ 11,834	$ 427	$ 88,141
Additions	-	281	21,464	71	60	208	12,242	136	34,462
Disposals	-	-	(107)	-	(3)	-	-	-	(110)
Depreciation charge	-	(980)	(6,056)	(108)	(73)	(370)	(1,648)	-	(9,235)
Closing net book amount	$ 2,454	$ 17,265	$ 69,617	$ 304	$ 250	$ 377	$ 22,428	$ 563	$ 113,258
At December 31, 2016									
Cost	$ 2,454	$ 19,012	$ 110,175	$ 710	$ 683	$ 1,279	$ 32,065	$ 563	$ 166,941
Accumulated depreciation	-	(1,747)	(40,558)	(406)	(433)	(902)	(9,637)	-	(53,683)
Net book amount	$ 2,454	$ 17,265	$ 69,617	$ 304	$ 250	$ 377	$ 22,428	$ 563	$ 113,258
Year ended, December 31, 2017									
Opening net book amount	$ 2,454	$ 17,265	$ 69,617	$ 304	$ 250	$ 377	$ 22,428	$ 563	$ 113,258
Additions [4]	-	20	36,599	49	17	417	13,141	144	50,387
Acquisition of business [5]	1,571	3,947	14,177	-	-	-	-	-	19,695
Disposals	-	-	(36)	-	-	-	-	-	(36)
Depreciation charge	-	(990)	(7,207)	(108)	(59)	(423)	(2,819)	-	(11,606)
Effect of movement in exchange rates	(2)	(7)	(21)	-	-	-	-	-	(30)
Closing net book amount	$ 4,023	$ 20,235	$ 113,129	$ 245	$ 208	$ 371	$ 32,750	$ 707	$ 171,668
At December 31, 2017									
Cost	$ 4,023	$ 22,972	$ 160,031	$ 759	$ 701	$ 1,695	$ 45,163	$ 707	$ 236,051
Accumulated depreciation	-	(2,737)	(46,902)	(514)	(493)	(1,324)	(12,413)	-	(64,383)
Net book amount	$ 4,023	$ 20,235	$ 113,129	$ 245	$ 208	$ 371	$ 32,750	$ 707	$ 171,668

(1) Included in laundry equipment are assets under development in the amount of $23,625 (2016 - $16,536). These assets are not available for service and accordingly are not presently being depreciated.

(2) Included in leasehold improvements are assets under development in the amount of $8,251 (2016 - $11,547). These assets are not available for service and accordingly are not presently being depreciated.

(3) Total property, plant and equipment additions include amounts in accounts payable of $5,799 (2016 - $1,721).

(4) 2017 Additions include amounts from the Canadian Division of $50,387 and from the UK Division of $0.

(5) Includes amounts related to property, plant and equipment assets of the acquired business which are included in the reportable segment for the UK division.

9 Intangible assets

	Healthcare Relationships	Hospitality Relationships	Computer Software	Brand	Total
Year ended, December 31, 2016					
Opening net book amount	$ 3,550	$ 1,381	$ -	$ -	$ 4,931
Additions	-	-	-	-	-
Amortization charge	(1,043)	(747)	-	-	(1,790)
Closing net book amount	$ 2,507	$ 634	$ -	$ -	$ 3,141
At December 31, 2016					
Cost	$ 19,200	$ 8,550	$ 927	$ -	$ 28,677
Accumulated amortization	(16,693)	(7,916)	(927)	-	(25,536)
Net book amount	$ 2,507	$ 634	$ -	$ -	$ 3,141
Year ended, December 31, 2017					
Opening net book amount	$ 2,507	$ 634	$ -	$ -	$ 3,141
Additions	-	-	-	-	-
Acquisition of business [1]	-	11,383	-	4,247	15,630
Amortization charge	(1,043)	(724)	-	-	(1,767)
Effect of movement in exchange rates	-	(18)	-	(7)	(25)
Closing net book amount	$ 1,464	$ 11,275	$ -	$ 4,240	$ 16,979
At December 31, 2017					
Cost	$ 19,200	$ 19,915	$ 927	$ 4,240	$ 44,282
Accumulated amortization	(17,736)	(8,640)	(927)	-	(27,303)
Net book amount	$ 1,464	$ 11,275	$ -	$ 4,240	$ 16,979

(1) Includes amounts related to intangible assets of the acquired business which are included in the reportable segment for the UK division.

10 Goodwill

The Corporation performed its annual assessment for goodwill impairment for the Canadian CGU as at December 31, 2017 and for the UK division as at November 28, 2017 in accordance with its policy described in note 2(l). Goodwill has been allocated to the following CGUs:

	2017	2016
Calgary	$ 5,382	$ 5,382
Edmonton	4,346	4,346
Vancouver 2	3,413	3,413
Victoria	3,208	3,208
Vancouver 1	2,630	2,630
Montréal	823	823
Québec	654	654
Canadian division	**$ 20,456**	**$ 20,456**

	2017	2016
UK division	$ 18,100	$ -
Changes due to movement in exchange rates	(30)	-
UK division	**$ 18,070**	**$ -**
Goodwill	**$ 38,526**	**$ 20,456**

Canadian division

In assessing goodwill for impairment at December 31, 2017, the Corporation determined that: the assets and liabilities of the CGUs evaluated have not changed significantly from the prior year at December 31, 2016; the estimated recoverable amounts of the CGUs exceeded their carrying amounts by a significant amount; no events or circumstances have changed.

In performing our analysis, estimated recoverable amounts were determined based on the value in use of the CGUs using available cash flow forecasts over a 5 year period that made maximum use of observable markets for inputs and outputs, including actual historical performance. For periods beyond the budgeted period, cash flows were extrapolated using growth rates that did not exceed the long-term averages for the business. Key assumptions included a weighted average growth rate of 3% (2016 – 3%) and a pre-tax discount rate of 10% to 12% (2016 – 11% to 13%) for all CGUs. The growth rates represent management's current assessment of future industry trends and are based on both external and internal sources, as well as historical data.

The recoverable amount of each CGU was in excess of its carrying amount. Significant CGUs with an individual carrying value greater than 10% of the total consolidated carrying value include Edmonton, Calgary, Victoria, Vancouver 1 and 2. For these CGUs the recoverable amount significantly exceeds the carrying amount. Based on sensitivity analysis, no reasonably possible change in key assumptions would cause the carrying amount of these CGUs to exceed its recoverable amount.

Based on sensitivity analysis, no reasonably possible change in growth rate assumptions would cause the carrying value to exceed the recoverable amount. A 1% change in the discount rate would not have a significant impact on the recoverable amounts of CGUs. The recoverable amount of each CGU

is sensitive to changes in market conditions and could result in material changes. The process for determining the recoverable amount is subjective and requires management to exercise significant judgment in determining the future growth rates and discount rates.

UK Division

In performing our analysis, estimated recoverable amounts were determined based on fair value less costs of disposal. Management performed its assessment for goodwill impairment on November 28, 2017, the day immediately after the acquisition that gave rise to the goodwill (note 6). The best evidence of fair value is the acquisition price paid by the Corporation which was negotiated between two unrelated parties adjusted for estimated disposal costs and any entity specific considerations. This analysis indicated the recoverable amount was not significantly different from the carrying amount of the CGU. The fair value estimate is included in level 2 of the fair value hierarchy.

11 Provisions

The Corporation's provision includes obligations to restore leased premises of its leased plants. A provision has been recognized for the present value of the estimated expenditure required to remove leasehold improvements and installed equipment. The Corporation estimates the undiscounted, inflation adjusted cash flows required to settle these obligations at December 31, 2017 to be $2,853. Management has estimated the present value of this obligation at December 31, 2017 to be $2,393 using an inflation rate of 1.72% and pre-tax weighted average risk-free interest rate of 0.75% to 2.5% dependent upon length of the lease term, which reflects current market assessments of the time value of money. These obligations are expected to be incurred over an estimated period from 2019 to 2033.

Management estimates the provision based on information from previous asset retirement obligations, as well as plant specific factors. Factors that could impact the estimated obligation are labour costs, the extent of removal work required, the number of lease extensions exercised and the inflation rate. As at December 31, 2017, if actual costs were to differ by 10% from management's estimate the obligation would be an estimated $239 higher or lower. It is possible the estimated costs could change and changes to these estimates could have a significant effect on the Corporation's consolidated financial statements. The Corporation recorded the following asset retirement obligation activity during the year:

	2017	2016
Balance, beginning of year	$ -	$ -
Adoption of standard	1,302	
Additions	513	-
Acquisition of business	537	
Accretion expense	42	-
Changes due to movement in exchange rates	(1)	
Balance, end of year	$ 2,393	$ -

12 Long-term debt

		Prime Rate Loan[1]
At January 1, 2016	$	2,349
Net proceeds from debt		23,451
Closing balance at December 31, 2016	$	25,800
At January 1, 2017	**$**	**25,800**
Net proceeds from debt		**16,980**
Closing balance at December 31, 2017	**$**	**42,780**

(1) Prime rate loan, collateralized by a general security agreement, bear interest at prime plus an interest margin dependent on certain financial ratios, with a monthly repayment of interest only, maturing on July 31, 2021 (December 31, 2016 – July 31, 2020). The additional interest margin can range between 0.0% to 1.25% dependent upon the calculated Debt/EBITDA financial ratio, with a range between 0 to 3.5x. As at December 31, 2017, the combined interest rate was 3.7% (December 31, 2016 – 2.7%).

During 2017 the Corporation completed an amendment to its existing revolving credit facility, which extended the agreement to July 31, 2021, and increased the available limit from $85,000 to $100,000 plus a $25,000 accordion, of which $44,430 is utilized (including letters of credit totaling $1,650) as at December 31, 2017. Interest payments only are due during the term of the facility.

Drawings under the revolving credit facility are available by way of Bankers' Acceptances, Canadian prime rate loans, Libor of UK pounds based loans, letters of credit or standby letters of guarantee. Drawings under the revolving credit facility bear interest at a floating rate, plus an applicable margin based on certain financial performance ratios.

A general security agreement over all assets, a mortgage against all leasehold interests and real property, insurance policies and an assignment of material agreements have been pledged as collateral.

The carrying value of borrowings approximate their fair value as the debt is based on a floating rate, the interest rate risk has not changed, and the impact of discounting is not significant.

The Corporation has incurred no events of default under the terms of its credit facility agreement.

13 Finance expense

		2017		2016
Interest on long-term debt	**$**	**396**	$	372
Accretion expense		**42**		-
Other charges, net		**695**		367
	$	**1,133**	$	739

14 Unamortized lease inducements

	2017	2016
Balance, beginning of year	$ 2,112	$ 839
Lease inducements received	408	1,497
Acquisition of business	370	-
Amortization charge	(98)	(224)
	2,792	2,112
Less current portion, included in accrued liabilities	(209)	(249)
	$ 2,583	$ 1,863

15 Income taxes

A reconciliation of the expected income tax expense to the actual income tax expense is as follows:

	2017	2016
Current tax:		
Current tax on profits for the year	$ 2,137	$ 4,467
Total current tax	2,137	4,467
Deferred tax:		
Origination and reversal of temporary differences	1,578	385
Impact of substantively enacted rates and other	46	(12)
Total deferred tax	$ 1,624	$ 373

The tax on the Corporation's earnings differs from the theoretical amount that would arise using the weighted average tax rate applicable to earnings of the consolidated entities as follows:

	2017	2016
Earnings before income taxes	$ 9,479	$ 16,367
Non-deductible expenses	4,657	1,743
Income subject to tax	14,136	18,110
Income tax at statutory rate of 26.53% (2016 - 26.58%)	3,750	4,814
Difference between Canadian and foreign tax rates	1	-
Impact of substantively enacted rates and other	10	26
Income tax expense	$ 3,761	$ 4,840

The analysis of the deferred tax assets and deferred tax liabilities is as follows:

	2017	2016
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	$ (2,368)	$ (601)
Deferred tax asset to be recovered within 12 months	(95)	(94)
	(2,463)	(695)
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	8,467	3,982
Deferred tax liability to be recovered within 12 months	3,834	2,999
	12,301	6,981
Deferred tax liabilities, net	$ 9,838	$ 6,286

The movement of deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdictions, is as follows:

Deferred tax assets	**Asset Retirement Obligation**	**Offering costs and other**	**Total**
At January 1, 2016	$ -	$ (451)	$ (451)
Charged (credited) to the statement of earnings	-	(244)	(244)
At December 31, 2016	$ -	$ (695)	$ (695)
Acquisition of business	-	(238)	(238)
Charged (credited) to the statement of earnings	(500)	196	(304)
Charged (credited) to the statement of changes in equity	-	(1,227)	(1,227)
Related to movements in exchange rates	-	1	1
At December 31, 2017	$ (500)	$ (1,963)	$ (2,463)

Deferred tax liabilities	**Linen in service**	**Property, plant and equipment**	**Intangible assets and Goodwill**	**Total**
At January 1, 2016	$ 2,923	$ 2,432	$ 1,009	$ 6,364
Charged (credited) to the statement of earnings	76	786	(245)	617
At December 31, 2016	$ 2,999	$ 3,218	$ 764	$ 6,981
Acquisition of business	32	708	2,657	3,397
Charged (credited) to the statement of earnings	800	1,406	(282)	1,924
Related to movements in exchange rates	1	(1)	(1)	(1)
At December 31, 2017	$ 3,832	$ 5,331	$ 3,138	$ 12,301

16 Contingencies and commitments

a) Contingencies

The Corporation has standby letters of credit issued as part of normal business operations in the amount of $1,650 (December 31, 2016 – $1,650) which will remain outstanding for an indefinite period of time.

Grievances for unspecified damages were lodged against the Corporation in relation to labour matters. The Corporation has disclaimed liability and is defending the actions. It is not practical to estimate the potential effect of these grievances but legal advice indicates that it is not probable that a significant liability will arise.

b) Commitments

(i) Operating leases and utility commitments

At December 31, 2017, the Corporation was committed to minimum lease payments for operating leases on buildings and equipment and estimated natural gas and electricity commitments for the next five calendar years and thereafter are as follows:

Operating lease commitments

2018	$	9,588
2019		8,629
2020		6,750
2021		5,760
2022		5,355
Subsequent		32,194
	$	68,276

Utility commitments

2018	$	5,827
2019		1,287
2020		1,288
2021		1,274
2022		-
Subsequent		-
	$	9,676

(ii) Linen purchase commitments

At December 31, 2017, the Corporation was committed to linen expenditure obligations in the amount of $10,232 (December 31, 2016 – $6,926) to be incurred within the next year.

(iii) Property, plant and equipment commitments

At December 31, 2017, the Corporation was committed to capital expenditure obligations in the amount of $28,748 (December 31, 2016 – $28,897) to be incurred within the next year and $0 (December 31, 2016 – $8,628) to be incurred in the next two years.

17 Share Capital

a) Authorized

The Corporation is authorized to issue an unlimited number of common shares and such number of shares of one class designated as preferred shares which number shall not exceed 1/3 of the common shares issued and outstanding from time to time.

b) Issued

	2017	2016
Balance, beginning of year	**8,023,480**	7,985,713
Common shares issued under LTI	**42,422**	37,767
Common share issuance under equity offering	**2,442,600**	-
Balance, end of year	**10,508,502**	8,023,480
Unvested common shares held in trust for LTI	**54,880**	44,634

		2017
Proceeds from share issuance	**$**	**92,218**
Underwriter fee		**(3,689)**
Costs associated with share issuance		**(874)**
Net proceeds from share issuance		**87,655**
Deferred income tax impact of share issuance (note 17)		**1,227**
Total impact to share capital	**$**	**88,882**

On April 25, 2017 the Corporation closed a bought deal offering of 1,518,000 common shares at $38.00/share. The net proceeds of the offering after deducting expenses of the offering and the underwriter's fee were $55,000. The net proceeds of the offering were used to reduce the revolving debt to nil, and to fund the build out of the Corporation's state-of-the-art facilities in Toronto and Vancouver, and for general corporate purposes.

On December 12, 2017 the Corporation closed a bought deal offering of 924,600 common shares at $37.35/share. The net proceeds of the offering after deducting expenses of the offering and the underwriter's fee were $32,655. The net proceeds of the offering were used to partially pay down indebtedness that was incurred under K-Bro's amended $100,000 senior secured revolving credit facility to fund the acquisition of Fishers.

18 Earnings per share

a) Basic

Basic earnings per share is calculated by dividing the net earnings attributable to equity holders of the Corporation by the weighted average number of ordinary shares in issue during the year.

	2017	2016
Net earnings	**$ 5,718**	$ 11,527
Weighted average number of shares outstanding (thousands)	**9,084**	7,955
Net earnings per share, basic	**$ 0.63**	$ 1.45

The basic net earnings per share calculation excludes the unvested Common shares held by the LTIP Trust.

b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares to assume conversion of all dilutive potential ordinary shares.

	2017	2016
Basic weighted average shares for the year	**9,083,693**	7,955,026
Dilutive effect of LTI shares	**31,181**	31,703
Diluted weighted average shares for the year	**9,114,874**	7,986,729

	2017	2016
Net earnings	**$ 5,718**	$ 11,527
Weighted average number of shares outstanding (thousands)	**9,115**	7,987
Net earnings per share, diluted	**$ 0.63**	$ 1.44

19 Long-Term Incentive Plan

A trust was formed to hold equity grants issued under the terms of the LTI on behalf of the participants (the "LTIP Trust"). The Corporation is neither a trustee of the LTIP Trust nor a direct participant of the LTI; however, under certain circumstances the Corporation may be the beneficiary of forfeited Common shares held by the LTIP Trust. The Corporation has control over the LTIP Trust as it is exposed, or has rights, to variable returns and has the ability to affect those returns through its power over the LTIP Trust. Therefore the Corporation has consolidated the LTIP Trust. Compensation expense is recorded by the Corporation in the period earned. Dividends paid by the Corporation with respect to unvested Common shares held by the LTIP Trust are paid to LTI participants. Unvested Common shares held by the LTIP Trust are shown as a reduction of shareholders' equity.

	2017		2016	
	Unvested	**Vested**	Unvested	Vested
Balance, beginning of year	**44,634**	**375,958**	39,716	343,109
Issued during year	**28,544**	**13,879**	26,336	11,431
Vested during year	**(18,298)**	**18,298**	(21,418)	21,418
Balance, end of year	**54,880**	**408,135**	44,634	375,958

The cost of the 54,880 (2016 – 39,716) unvested Common shares held by the LTIP Trust at December 31, 2017 was nil (2016 - nil).

20 Dividends to shareholders

During the year ended December 31, 2017, the Corporation declared total dividends to shareholders of $11,121 or $1.200 per share (2016 - $9,613 or $1.200 per share).

The Corporation’s policy is to pay dividends to Shareholders of its available cash to the maximum extent possible consistent with good business practice considering requirements for capital expenditures, working capital, growth capital and other reserves considered advisable by the Directors of the Corporation. All such dividends are discretionary. Dividends are declared payable each month to the Shareholders on the last business day of each month and are paid by the 15th day of the following month.

21 Net change in non-cash working capital items

	2017		2016	
Accounts receivable	**$**	**(2,961)**	$	(1,296)
Linen in service		**(2,720)**		(232)
Prepaid expenses and deposits		**(309)**		(411)
Accounts payable and accrued liabilities (1)		**4,930**		340
Income taxes payable / receivable		**(2,862)**		405
	$	**(3,922)**	$	(1,194)

(1) Accounts payable and accrued liabilities exclude the net change in non-cash amounts related to the acquisition of property, plant and equipment that have been committed to but not yet paid of $4,078 (2016 - $3,905).

22 Financial instruments

a) Fair value

The Corporation’s financial instruments at December 31, 2017 and 2016 consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable to shareholders, and long term debt. The carrying value of accounts receivable, accounts payable and accrued liabilities, and dividends payable to shareholders approximate fair value due to the immediate or short-term maturity of these financial instruments. The fair value of the Corporation's interest-bearing debt approximates the respective carrying amount due to the floating rate nature of the debt.

b) Financial risk management

The Corporation's activities are exposed to a variety of financial risks: price risk, credit risk and liquidity risk. The Corporation's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Corporation's financial performance. Risk management is carried out by financial management in conjunction with overall corporate governance.

c) Price risk

(i) Currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar.

The Corporation's operations in Canada are not significantly exposed to foreign currency risk as all revenues are received in Canadian dollars and minimal expenses are incurred in foreign currencies.

The Corporation's operations in the UK transacts in Sterling pounds £, with minimal revenue and expenses that are incurred in other foreign currencies. The Corporation is sensitive to foreign exchange risk arising from the translation of the financial statements of subsidiaries with a functional currency other than the Canadian dollar impacting other comprehensive income (loss).

For large capital expenditure commitments denominated in a foreign currency, the Corporation will enter into foreign exchange forward contracts if considered prudent to mitigate this risk.

Based on financial instrument balances as at December 31, 2017, a strengthening or weakening of $0.01 of the Canadian dollar to the U.S. dollar with all other variables held constant could have a favorable or unfavorable impact of approximately $46, respectively, on net earnings.

Based on financial instrument balances as at December 31, 2017, a strengthening or weakening of $0.01 of the Canadian dollar to the Sterling pounds £, with all other variables held constant could have an unfavorable or favorable impact of approximately $54, respectively, on other comprehensive loss.

(ii) Interest rate risk

The Corporation is subject to interest rate risk as its credit facility bears interest at rates that depend on certain financial ratios of the Corporation and vary in accordance with market interest rates. Based on the credit facility at year end, the sensitivity to a 100 basis point movement in interest rates would result in an impact of $428 to net earnings.

(iii) Other price risk

The Corporation's exposure to other price risk is limited since there are no significant financial instruments which fluctuate as a result of changes in market prices.

d) Credit risk

The Corporation's financial assets that are exposed to credit risk consist of cash and cash equivalents and accounts receivable. The Corporation, in the normal course of business, is exposed to credit risk from its customers. The allowance for doubtful accounts and past due receivables are reviewed by management at each balance sheet reporting date. Any amounts greater than 60 days are reviewed for impairment on a specific identification basis and have been fully accounted for as at December 31, 2017.

The Corporation updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of accounts receivable balances of each customer taking into account historic collection trends, the contractual relationship with the customer and the nature of the customer which in many cases is a publicly funded health care entity.

Management believes that the risks associated with concentrations of credit risk with respect to accounts receivable are limited due to the nature of the customers and the generally short payment terms. The credit risk associated with cash and cash equivalents is minimized by ensuring these financial assets are held with Canadian chartered banks and Standard Chartered Bank United Kingdom.

The aging of the Corporation's receivables and related allowance for doubtful accounts are:

December 31, 2016	Gross	Allowance	Net
Current	$ 15,470	$ -	$ 15,470
31-60 days	2,730	-	2,730
Greater than 60 days	282	31	251
	$ 18,482	$ 31	$ 18,451

December 31, 2017	Gross	Allowance	Net
Current	**$ 22,813**	**$ -**	**$ 22,813**
31-60 days	**5,906**	**-**	**5,906**
Greater than 60 days	**1,367**	**368**	**999**
	$ 30,086	**$ 368**	**$ 29,718**

While the Corporation evaluates a customer's credit worthiness before credit is extended, provisions for potential credit losses are also maintained. The change in allowance for doubtful accounts was as follows:

	2017	2016
Balance, beginning of year	**$ 31**	$ 30
Adjustment made during the year	**(10)**	1
Acquisition of business	**348**	-
Effect of movements in exchange rates	**(1)**	-
Balance, end of year	**$ 368**	$ 31

e) Liquidity risk

The Corporation's accounts payable and dividend payable are due within one year.

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

	Payments due by Period				
	Total	< 1 Year	1 - 3 Years	4 - 5 Years	> 5 Years
Long-term debt	$ 42,780	$ -	$ 42,780	$ -	$ -
Operating lease commitments	$ 68,276	$ 9,588	$ 15,379	$ 11,115	$ 32,194
Utility commitments	$ 9,676	$ 5,827	$ 2,575	$ 1,274	$ -
Linen purchase obligations	$ 10,232	$ 10,232	$ -	$ -	$ -
Property, plant and equipment commitments	$ 28,748	$ 28,748	$ -	$ -	$ -

The Corporation has a credit facility with a maturity date of July 31, 2021 (Note 12). The degree to which the Corporation is leveraged may reduce its ability to obtain additional financing for working capital and to finance investments to maintain and grow the current levels of cash flows from operations. The Corporation may be unable to extend the maturity date of the credit facility.

Management, to reduce liquidity risk, has historically renewed the terms of the credit facility in advance of its maturity dates and the Corporation has maintained financial ratios that management believes are conservative compared to financial covenants applicable to the credit facility. A significant portion of the available facility remains undrawn.

Management measures liquidity risk through comparisons of current financial ratios with financial covenants contained in the credit facility.

23 Capital management

The Corporation views its capital resources as the aggregate of its debt, shareholders' equity and amounts available under its credit facility. In general, the overall capital of the Corporation is evaluated and determined in the context of its financial objectives and its strategic plan.

The Corporation's objective in managing capital is to ensure sufficient liquidity to pursue its growth and expansion strategy, while taking a conservative approach towards financial leverage and management of financial risk. The Corporation's capital is composed of shareholders' equity and long-term debt. The Corporation's primary uses of capital are to finance its growth strategies and capital expenditure programs. The Corporation currently funds these requirements from internally-generated cash flows and interest bearing debt.

The Corporation pays a dividend which reduces its ability to internally finance growth and expansion. However the availability of the Corporation's revolving line of credit provides sufficient access to capital to allow K-Bro to take advantage of acquisition opportunities. The merits of the dividend are periodically evaluated by the Board.

The primary measures used by the Corporation to monitor its financial leverage are the ratios of Funded Debt to EBITDA (earnings before income taxes, depreciation and amortization) and Fixed

Charge Coverage. EBITDA is an additional GAAP measure as prescribed by IFRS and has been presented in the manner in which the chief operating decision maker assesses performance.

The Corporation manages a Funded Debt to EBITDA ratio calculated as follows:

	2017	2016
Long-term debt, including current portion	$ 42,780	$ 25,800
Issued and outstanding letters of credit	1,650	1,650
Cash and cash equivalents	(11,276)	-
Funded debt	33,154	27,450
Net earnings for the trailing twelve months	5,718	11,527
Add:		
Income tax expense	3,761	4,840
Finance expense	1,133	739
Depreciation of property, plant and equipment	11,606	9,235
Amortization of intangible assets	1,767	1,790
EBITDA (note 28)	$ 23,985	$ 28,131
Funded debt to EBITDA	1.38x	0.98x

The Corporation manages a Fixed Charge Coverage calculated on a trailing twelve-month basis as follows:

	2017	2016
EBITDA (note 28)	$ 23,985	$ 28,131
Finance expense	1,133	739
Dividends to shareholders	11,121	9,613
	$ 12,254	$ 10,352
Fixed charge coverage	2.0x	2.7x

24 Related party transactions

The Corporation transacts with key individuals from management and with the Board who have authority and responsibility to plan, direct and control the activities of the Corporation. The nature of these dealings were in the form of payments for services rendered in their capacity as Directors (retainers and meeting fees, including share-based payments) and as employees of the Corporation (salaries, benefits, short-term bonuses and share-based payments).

Key management personnel are defined as the executive officers of the Corporation including the President and Chief Executive Officer, Senior Vice-President, Chief Financial Officer and one employee acting in the capacity of Managing Director, UK.

During 2017 and 2016, remuneration to directors and key management personnel was as follows:

	2017	2016 [1]
Salaries and retainer fees	$ 1,487	$ 1,431
Short-term bonus incentives	912	867
Post-employment benefits	45	43
Share-based payments	1,290	1,181
	$ 3,734	$ 3,522

(1) Remuneration to directors and key management personnel for 2016 has been restated based off the change in key management personnel as defined.

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by a Director. The amounts charged are included as salaries and retainer fees. For the year ended December 31, 2017, the Corporation incurred such fees totaling $138 (2016– $138).

25 Expenses by nature

	2017	2016
Wages and benefits	$ 82,184	$ 77,154
Linen	18,998	17,547
Utilities	10,393	9,776
Delivery	11,358	8,793
Materials and supplies	6,683	6,083
Occupancy costs	6,652	5,505
Repairs and maintenance	5,627	4,855
Other expenses	4,679	1,245
	$ 146,574	$ 130,958

26 Segmented information

The Chief Executive Officer (“CEO”) is the corporation’s chief operating decision-maker. The Chief Executive Officer examines the Corporation’s performance and allocation of resources both from geographic perspective and service type, and has identified two reportable segments of its business:

1. Canadian division - provides laundry and linen services to the healthcare and hospitality sectors through nine operating divisions located in Vancouver, Victoria, Calgary, Edmonton, Regina, Toronto, Montréal, and Québec City. Management has assessed that the services offered and the economic characteristics associated with these divisions are similar, and therefore they have been aggregated into one reportable segment which operates exclusively in Canada.

2. UK division - provides laundry and linen services primarily to the hospitality sector with less than 10% of the revenue generated in other service sectors, through six plants and a distribution center located in North Lanarkshire, Inverness, West Lothian, North Shields, Perth, and Fife.

The aggregation assessment requires significant judgment by management. Economic indicators used by management to assess the economic characteristics are the gross margin and the growth rate of each division.

The CEO primarily uses a measure of EBITDA to assess the performance of the operating segments. However, the CEO also receives information about the segments’ revenue and assets on a monthly basis.

a) Segment revenue

The Corporation disaggregates revenue from contracts with customers by geographic location and customer-type for each of our segments, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same manner as in the consolidated statements of earnings & comprehensive income and as disclosed in Note 2(e).

In Edmonton, the Corporation is the significant supplier of laundry and linen services to the entity which manages all major healthcare facilities in the region and this contract expires on March 31, 2023. In Calgary, the major customer is contractually committed to February 28, 2019, in Vancouver the major customer is contractually committed to March 1, 2027, and in Saskatchewan the major customer is contractually committed to June 1, 2025. For the twelve months ended December 31, 2017, from these four major customers the Corporation has recorded revenue of $92,340 (2016 – $87,782), representing 54.1% (2016 – 55.2%) of total revenue.

	2017			2016		
Healthcare	$	116,948	68.6%	$	111,384	70.0%
Hospitality		48,883	28.7%		47,705	30.0%
Canadian division	$	165,831	97.2%	$	159,089	100.0%
Healthcare	$	10	0.0%	$	-	0.0%
Hospitality		4,718	2.8%		-	0.0%
UK division	$	4,728	2.8%	$	-	0.0%
Total segment revenue	$	170,559	100.0%	$	159,089	100.0%

b) Segment EBITDA

Segment EBITDA is calculated consistent with the presentation in the financial statements. The EBITDA is allocated based on the operations of the segment, and where the earnings and costs are generated from.

		Canadian division 2017		UK division 2017		Other 2017		2017
Net earnings (loss)	$	8,599	$	(2,881)	$	-	$	5,718
Add:								
Income tax expense (recovery)		3,803		(42)		-		3,761
Finance expense		1,115		18		-		1,133
Depreciation of property, plant and equipment		11,400		206		-		11,606
Amortization of intangible assets		1,576		191		-		1,767
Transaction costs due to acquisition of business				2,831		(2,831)		-
EBITDA	**$**	**26,493**	**$**	**323**	**$**	**(2,831)**	**$**	**23,985**

		Canadian division 2016		UK division 2016		Other 2016		2016
Net earnings	$	11,527	$	-	$	-	$	11,527
Add:								
Income tax expense		4,840		-		-		4,840
Finance expense		739		-		-		739
Depreciation of property, plant and equipment		9,235		-		-		9,235
Amortization of intangible assets		1,790		-		-		1,790
EBITDA	**$**	**28,131**	**$**	**-**	**$**	**-**	**$**	**28,131**

The Canadian division net earnings includes non-cash employee share based compensation expense of $1,508 (2016 – $1,518).

c) Segment assets

Segment assets are measured in the same way as in the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

The Corporation's cash and cash equivalents are not considered to be segment assets, but are managed by the treasury function.

Years ended December 31	Canadian division 2017	UK division 2017	2017
Total assets	$ 225,339	$ 69,874	**$ 295,213**
Other:			
Cash and cash equivalents	-	(11,276)	**(11,276)**
Intercompany loans	(10,934)	10,934	**-**
Total segment assets	**$ 214,405**	**$ 69,532**	**$ 283,937**

Years ended December 31	Canadian division 2016	UK division 2016	2016
Total assets	$ 168,289	$ -	**$ 168,289**
Total segment assets	**$ 168,289**	**$ -**	**$ 168,289**

d) Segment liabilities

Segment liabilities are measured in the same way as in the financial statements. These liabilities are allocated based on the operations of the segment.

The Corporation's borrowings are not considered to be segment liabilities, but are managed by the treasury function.

Years ended December 31		Canadian division 2017		UK division 2017		2017
Total liabilities	$	78,410	$	15,216	$	93,626
Other:						
Long-term debt (note 12)		(42,780)		-		(42,780)
Total segment liabilities	**$**	**35,630**	**$**	**15,216**	**$**	**50,846**

Years ended December 31		Canadian division 2016		UK division 2016		2016
Total liabilities	$	51,617	$	-	$	51,617
Other:						
Long-term debt (note 12)		(25,800)		-		(25,800)
Total segment liabilities	**$**	**25,817**	**$**	**-**	**$**	**25,817**

27 Statements of Earnings & Comprehensive Income - reclassification

The Corporation has made a reclassification that affects some of the costs related to wages and benefits, and delivery costs. The reason is to give a true and fair view based on the intended function of the delivery costs, which have been emphasized with the strategic growth of the Corporation. In order to maintain comparability, the financial statements for 2016 and 2017 have been adjusted. The reclassification does not affect EBITDA or net earnings.

	Year Ended December 31, 2017			Year Ended December 31, 2016		
	Before Reclassification	Reclassification	After Reclassification	Before Reclassification	Reclassification	After Reclassification
Wages and benefits	$ 77,286	$ (6,934)	$ 70,352	$ 72,247	$ (7,172)	$ 65,075
Delivery	11,358	6,934	18,292	8,793	7,172	15,965
Total	$ 88,644	$ -	$ 88,644	$ 81,040	$ -	$ 81,040

28 EBITDA Reclassification

The Corporation has made a reclassification on the statement of earnings and comprehensive income, in which the “loss on disposal of property plant and equipment” has now been included as part of EBITDA, the financial statements for 2016 and 2017 have been adjusted. The reclassification does not affect net earnings.

29 Subsequent Events

a) Dividends

The Corporation’s Board of Directors declared an eligible dividend of $0.10 per Common share of the Corporation payable on each of February 15, March 15 and April 13, 2018 to Shareholders of record on January 31, February 28, and March 31, 2018 respectively.

b) Alberta Healthcare Contract Extension

On March 1, 2018, the Corporation was awarded a 1 year extension to provide laundry and linen services to Alberta Health Services Calgary. The contract extends the existing relationship between the Corporation and Alberta Health Services Calgary.