



K·BRO

Q1, 2017

MANAGEMENT'S
DISCUSSION &
ANALYSIS

WE ARE
DEPENDABLE.

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, 2017 and the audited Consolidated Financial Statements, as well as the MD&A, for the year ended December 31, 2016. The Corporation and its wholly-owned subsidiaries, including K-Bro Linen Systems Inc., are collectively referred to as "K-Bro" in this MD&A.

Management is responsible for the information contained in this MD&A and its consistency with information presented to the Audit Committee and Board of Directors. All information in this document has been reviewed and approved by the Audit Committee and Board of Directors. This review was performed by management with information available as of May 12, 2017.

In the interest of providing current Shareholders of K-Bro Linen Inc. 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 and labour costs; (iv) K-Bro's dependence on long-term contracts with the associated renewal risk; (v) increased capital expenditure requirements; (vi) reliance on key personnel; (vii) changing trends in government outsourcing; and (viii) the availability of future financing. 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; and (iii) the level of capital expenditures. 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 the William Osler Health System and Trillium Health Partners and other new customers as well as the anticipated capital costs for the Toronto and Vancouver facilities and statements with respect to future expectations on margins and volume growth.

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

K-Bro is the largest owner and operator of laundry and linen processing facilities in Canada. K-Bro provides a comprehensive range of general linen and operating room linen processing, management and distribution services to healthcare institutions, hotels and other commercial accounts. K-Bro currently has nine processing facilities in eight major Canadian cities including Victoria, Vancouver, Calgary, Edmonton, Regina, Toronto, Montréal and Québec City, and two distribution centers in Saskatchewan.

Industry and Market

K-Bro provides laundry and linen services to Canadian 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 in Canada 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 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.

Our partnerships with healthcare institutions and hospitality clients across Canada demonstrate K-Bro's commitment to build relationships that foster continuous improvement, provide flexibility to adjust to changing circumstances as required and which incorporate incentives, penalties and sharing of risks and rewards as circumstances warrant. As a result, clients across the country have entered into long-term relationships with us, with most having renewed their contracts several times.

In this competitive industry, K-Bro is distinctive in Canada 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.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Three Months Ended March 31,		
<i>(thousands, except percentages and per share amounts)</i>	2017	2016	2015
Revenue	\$ 38,958	\$ 38,812	\$ 33,820
Earnings before income taxes	1,770	3,646	4,224
Net earnings	1,250	2,532	3,019
<i>Net earnings per share:</i>			
Basic	\$ 0.16	\$ 0.32	\$ 0.38
Diluted	\$ 0.16	\$ 0.32	\$ 0.38
Total assets	180,583	146,816	133,229
Long-term debt	32,363	5,970	-
Dividends declared to Shareholders	2,407	2,396	2,388
Dividends declared to Shareholders per share	\$ 0.300	\$ 0.300	\$ 0.300
<i>Weighted average number of shares outstanding:</i>			
Basic	7,978,846	7,945,997	7,914,367
Diluted	7,999,181	7,964,604	7,942,293

SUMMARY OF INTERIM RESULTS, KEY EVENTS AND OUTLOOK

Financial Growth

Net earnings were \$1.3 million or \$0.16 per share (basic). Cash flow from operating activities was \$6.3 million and distributable cash flow was \$4.5 million. Revenue increased in the first quarter of 2017 to \$39.0 million or by 0.4% compared to 2016. This increase was due to additional volume from the additional awarded healthcare volume from the Vancouver lower mainland contract, organic growth at existing customers, and new customers secured in existing markets. These gains were partially offset by price concessions in Vancouver as a result of contractual terms related to the new ten year contract.

EBITDA (see Terminology) decreased in the year to \$4.8 million from \$6.8 million in 2016, which is a decrease of 29.7%. The EBITDA margin decreased from 17.5% in 2016 compared to 12.2% in 2017. The change in EBITDA and margin was predominantly impacted by one-time and transition costs associated with the relocation of our new Toronto facility, the lockout of the Toronto drivers discussed in the Toronto Collective Bargaining Agreement section and from temporary capacity constraints in Vancouver. Management estimates these one-time and transition costs incurred in Q1 to be approximately \$2.3 million.

Near-Term and Long-Term Growth and Margin Impact

Management has embarked on a strategy in its Toronto and Vancouver markets that it believes will position the Corporation for accelerated growth in its healthcare and hospitality businesses. The strategy includes capital investments to build large efficient state-of-the-art facilities with meaningful additional capacity in Toronto and Vancouver. In addition, the Corporation will invest to upgrade one of its current Vancouver plants to create a more efficient facility with meaningful additional capacity.

These investments are being made because management believes that new opportunities, both current and future, justify the significant additional capacity. Since the third quarter of 2016 we have

been awarded two new healthcare accounts in Toronto (William Osler Health System and Trillium Health Partners), representing total revenue of \$7.6 million annually and management believes that it has many additional new customer opportunities going forward. Furthermore, during the prior year in Vancouver we re-signed most of our current healthcare volume through to 2027 and were awarded six new healthcare accounts representing an additional \$5.2 million in annual revenue with additional new customer opportunities going forward.

The construction and/or upgrade of three large facilities enable us to bid on significant amount of additional business, but also will create margin pressure through 2017 and 2018 as the Corporation incurs one-time and transition costs associated with these large investments. Those one-time and transition costs were approximately \$2.3 million for the first quarter of 2017. While the margin pressure may vary by quarter through 2017 and 2018, management believes that the one-time and transition costs incurred in 2017 and 2018 will position the Corporation to achieve more growth and a lower cost structure into the future and that the Corporation will return to normalized margins closer to those achieved in 2015 as it enters 2019.

Key events in our Toronto and Vancouver markets are summarized below.

Vancouver Facility Development

As announced on March 2, 2016, K-Bro has commenced the planning and development of a new state-of-the-art facility with a projected investment of up to \$50 million with the potential for an additional \$5 million due to exposure from the U.S. dollar and construction costs that have not been fully tendered. The new Vancouver plant will be located in Burnaby, and the Corporation expects to transition to the new facility during the third quarter of 2018. The new facility will enable K-Bro to expand current capacity, to accommodate the additional awarded volume, and to provide the opportunity to consolidate the healthcare volume from its existing two Vancouver-area facilities. In addition to investing in the new facility, K-Bro will upgrade and replace equipment at one of its existing Vancouver-area facilities, which will be used to process the consolidated hospitality volume. K-Bro will not be renewing the lease for the remaining Vancouver-area facility and related assets will be transferred to the other K-Bro facilities. K-Bro believes it will achieve significant operating efficiencies at its new plant. It is anticipated that transition costs associated with the new Vancouver plant will negatively impact EBITDA margins over the third and fourth quarters of 2018 while the plant becomes operational.

Toronto Facility Development

During the quarter, K-Bro completed the transition to its new state-of-the-art facility in Toronto. Management estimates that the costs to commission the new leased facility are \$37 million for new efficiency enhancing equipment, and leaseholds. As at March 31, 2017, K-Bro has incurred \$33.9 million of the total expected capital cost. K-Bro's strategy includes significant growth in its healthcare and hospitality volumes, and the additional capacity and the long-term lease enables K-Bro to grow into the additional capacity as opportunities emerge. It is anticipated that transition costs associated with the new Toronto plant will negatively impact EBITDA margins over several quarters as the plant becomes operational. Management anticipates that transition costs will impact the first three quarters of 2017 with margins returning to historical levels during the fourth quarter of 2017.

Toronto Contract Awards

On February 28, 2017 the Corporation was awarded a 5 year contract to provide laundry and linen services to St. Michaels Hospital. The contract contains two renewal options for an additional 2 years. The contract extends the existing relationship between the Corporation and St. Michaels Hospital and is a result of a competitive RFP process.

On March 24, 2017 the Corporation was awarded a contract to provide laundry and linen services to

Trillium Health Partners. The new contract is for 7 years with renewal options for an additional 8 years, and is a result of a competitive RFP process. Expected additional annual revenue from the contract is \$4 million.

Toronto Collective Bargaining Agreement

The Teamsters represent 14 drivers in our Toronto facility. The Collective Bargaining Agreement representing these employees expired on December 31, 2016. The members of the bargaining unit rejected the Corporation's contract proposal and on January 31, 2017 the Corporation locked out the 14 Toronto drivers and employed replacement drivers to service its Toronto accounts. The Corporation is presently in negotiations with the Teamsters to reach a new collective bargaining agreement. There have been no service interruptions to any customers as a result of the lock-out. Management estimates one-time and transition costs associated with this lock-out in the amount of \$0.5 million were incurred in the first quarter of 2017.

Equity Offering

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 estimated expenses of the offering and the underwriter's fee are anticipated to be \$55.0 million. The net proceeds of the offering will be used to fund the build out of the Corporation's state-of-the-art facilities in Toronto and Vancouver, to pay down the indebtedness and for general corporate purposes.

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:

<i>(thousands, except percentages and per share amounts)</i>			
Category	Indicator	Q1 2017	Q1 2016
Growth	EBITDA ⁽¹⁾	-29.7%	7.5%
	Revenue	0.4%	14.8%
	Distributable cash flow	-14.8%	7.7%
Profitability	EBITDA ⁽¹⁾	\$ 4,764	\$ 6,776
	EBITDA margin	12.2%	17.5%
	Net earnings	\$ 1,250	\$ 2,532
Stability	Debt to total capitalization ⁽²⁾	21.8%	5.0%
	Unutilized line of credit	\$ 50,987	\$ 42,380
	Payout ratio	53.5%	45.3%
	Dividends declared per share	\$ 0.300	\$ 0.300
Cost containment	Wages and benefits	46.1%	45.2%
	Utilities	7.0%	6.1%
	Expenses included in EBITDA	87.8%	82.5%

OUTLOOK

K-Bro's focus is on profitable growth in the years to come as we execute our strategy of expanding geographically and adding new services for our customers. K-Bro is committed to building value for our shareholders, our customers and our employees.

K-Bro also has several proposals pending and has entered into discussions with potential new customers. In addition, K-Bro continues to seek potential acquisition candidates. Neither the timing nor the degree of likelihood of success of any of these proposals or acquisitions can be stated with any degree of accuracy.

Effects of Economic Uncertainty

K-Bro believes that it is positioned to withstand market volatility and uncertainty given that:

- Approximately 72.0% of its revenues in the quarter were from large publicly funded healthcare customers which are geographically diversified across multiple provinces;
- At March 31, 2017, K-Bro had unutilized borrowing capacity of \$51.0 million or 60.0% of the revolving credit line available; and,
- K-Bro's prudent approach to managing capital has added cash flow and liquidity to the Corporation, thereby improving its ability to withstand the turmoil in the national and global capital markets.

RESULTS OF OPERATIONS

Quarterly Financial Information

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

(thousands, except percentages and per share amounts)	2017		2016			2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Healthcare revenue	28,053	28,374	27,333	27,553	28,124	27,100	23,978	24,005
Hospitality revenue	10,905	10,877	14,224	11,916	10,688	10,580	13,722	11,332
Total revenue	38,958	39,251	41,557	39,469	38,812	37,680	37,700	35,337
Expenses included in EBITDA	34,194	32,844	34,019	31,954	32,036	31,507	30,123	28,251
EBITDA ⁽¹⁾	4,764	6,407	7,538	7,515	6,776	6,173	7,577	7,086
EBITDA as a % of revenue (EBITDA margin)	12.2%	16.3%	18.1%	19.0%	17.5%	16.4%	20.1%	20.1%
Depreciation and amortization	2,809	2,866	2,748	2,674	2,737	2,859	2,326	2,219
Finance expense (recovery)	185	247	(11)	110	393	156	(128)	177
Loss on disposal of equipment	-	86	-	19	-	172	4	14
Earnings before income taxes	1,770	3,208	4,801	4,712	3,646	2,986	5,375	4,676
Income tax expense	520	1,011	1,387	1,328	1,114	828	1,523	1,637
Net earnings	1,250	2,197	3,414	3,384	2,532	2,158	3,852	3,039
Net earnings as a % of revenue	3.2%	5.6%	8.2%	8.6%	6.5%	5.7%	10.2%	8.6%
Basic earnings per share	0.157	0.276	0.429	0.426	0.319	0.272	0.486	0.384
Diluted earnings per share	0.156	0.274	0.427	0.425	0.318	0.271	0.483	0.382
Total assets	180,583	168,289	153,923	148,068	146,816	143,023	145,106	135,516
Total long-term financial liabilities	41,134	33,949	17,596	14,360	12,717	8,958	6,776	6,361
Funds provided by operations	6,300	6,071	7,581	4,143	6,726	3,897	5,733	3,773
Long-term debt	32,363	25,800	10,338	7,252	5,970	2,349	-	-
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, gain or loss on disposals, finance expense (recovery) and depreciation and amortization). See Terminology.

Revenue, Earnings and EBITDA

For the three months ended March 31, 2017, K-Bro's revenue increased by 0.4% to \$39.0 million from \$38.8 million in the comparative period. This increase was due to the additional awarded healthcare volume from the recently signed Vancouver lower mainland contract, organic growth at existing customers, and new customers secured in existing markets, offset by price concessions in Vancouver as a result of contractual terms related to a new ten year contract and one less day in Q1 2017 as a result of 2016 being a leap year. Management estimates the impact of the leap year to be approximately \$0.4 million or 1% of total revenue. In Q1, 2017 approximately 72.0% of K-Bro's revenue was generated from healthcare institutions which is slightly lower compared to 72.5% in Q1, 2016, due to stronger hospitality volumes during the quarter.

As anticipated, EBITDA decreased to \$4.8 million for the three months ended March 31, 2017, compared to \$6.8 million in the comparative period of 2016. Increases in revenue were offset by transition costs related to the transition to our new Toronto facility, significant training costs related to new staff, significant overtime costs in relation to the temporary operations of both plants, support costs to facilitate staff in the move to the new plant, , costs incurred to vacate our old facility and costs related to mitigating the effect related to the lock-out of the unionized delivery drivers in Toronto during the quarter. In addition, the company incurred significant overtime and one-time costs to support new business, strong volumes and temporary capacity constraints in certain of our markets. Management estimates these costs to be \$2.3 million for the quarter.

Net earnings decreased by \$1.2 million or 50.6% from \$2.5 million in Q1, 2016 to \$1.3 million in Q1, 2017. Net earnings as a percentage of revenue decreased by 3.3% to 3.2% in Q1, 2017 from 6.5% in Q1, 2016. This decrease in net earnings is primarily due to the flow through items in EBITDA discussed above and, higher depreciation of property, plant and equipment, offset by a lower income tax expense.

Operating Expenses

Wages and benefits increased to \$18.0 million in 2017 from \$17.5 million in 2016, and increased as a percentage of revenue to 46.1% in 2017 from 45.2% in 2016. The increase in the period is due to one-time transition costs associated with the Toronto facility move, rising labour costs from incremental increases in the wage rate, the incremental labour required to process the increased volumes, significant overtime costs and one-time costs to support new business, strong volumes and temporary capacity constraints in certain of our markets.

Linen expenses remained constant at \$4.4 million in 2017 compared to 2016, and increased as a percentage of revenue to 11.4% in Q1, 2017 from 11.2% in Q1, 2016. The increase in costs is primarily due to the additional linen required to help manage inventory levels during the transition to the new Toronto facility and additional linen required for the additional volume awarded as part of the Vancouver lower mainland contract.

Utility costs increased to \$2.7 million compared to \$2.4 million in 2016 and increased as a percentage of revenue to 7.0% from 6.1% in 2016, due to higher costs associated with the transition to the new Toronto facility and the increased volumes in certain markets.

Delivery costs increased to \$2.6 million and to 6.6% as a percentage of revenues compared to \$2.1 million and 5.4% in Q1, 2016. The increase is a result of increased business activity, transition costs related to the new Toronto facility and temporary costs to mitigate the effects related to the lock-out of the Toronto unionized delivery drivers.

Occupancy costs increased to \$1.5 million and to 3.7% as a percentage of revenue, compared to \$1.3

million and 3.3% in Q1, 2016. This increase is a result of the new Toronto facility, interim warehousing costs related to the Toronto transition, and additional warehousing costs to address the temporary storage requirements related to the additional volume from the Vancouver lower mainland contract.

Materials and supplies increased to \$1.5 million and to 3.9% as a percentage of revenue, compared to \$1.3 million and 3.3% in Q1, 2016, due to higher costs associated with the transition to the new Toronto facility and to support the increased volumes in certain markets.

Repairs and maintenance increased to \$1.4 million and to 3.5% as a percentage of revenues, compared to \$1.2 million and 3.0% in Q1, 2016, primarily related to the timing of scheduled maintenance activities.

Corporate costs increased to \$2.2 million and to 5.5% as a percentage of revenues compared to \$1.9 million and 5.0% in Q1, 2016, primarily due to transition costs related Toronto relocation, the timing of costs and initiatives to support the Corporation's growth and business strategies across the plants.

Depreciation of property, plant and equipment and amortization of intangible assets represents the expense related to the appropriate matching of certain of K-Bro's long-term assets to the estimated useful life and period of economic benefit of those assets. The increase during the quarter is related to the completion of the new Toronto facility.

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 quarterly provision on the earnings of the Corporation.

LIQUIDITY AND CAPITAL RESOURCES

In Q1, 2017 cash generated by operating activities was \$6.3 million, compared to \$6.7 million during Q1, 2016. The change in cash from operations is primarily due to the change in working capital items driven mainly from the timing of business activity and payments related to capital commitments.

During Q1, 2017, cash generated by financing activities was \$4.2 million compared to \$1.2 million in Q1, 2016. Financing activities in Q1, 2017 consisted of net proceeds from the revolving credit facility, offset by dividends paid to Shareholders.

During Q1, 2017, cash used in investing activities was \$10.5 million compared to \$8.0 million in Q1, 2016. Investing activities for the current quarter related primarily to the cash settlement of plant equipment for the new Toronto plant, leasehold improvements and purchase of plant equipment for the new Vancouver plant, and the purchase of equipment in existing plants to facilitate strategic growth.

Contractual Obligations

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

(thousands)	Payments due by Period				
	Total	< 1 Year	1 - 3 Years	4 - 5 Years	> 5 Years
Long-term debt	\$ 32,363	-	32,363	-	-
Operating lease commitments	\$ 54,914	3,875	10,861	9,002	31,176
Utility commitments	\$ 7,203	1,560	3,081	2,562	-
Linen purchase obligations	\$ 7,201	7,201	-	-	-
Property, plant and equipment commitments	\$ 23,954	21,489	2,465	-	-

The operating lease obligations are secured by automotive equipment and plants, and are more fully described in the audited annual consolidated financial statements. 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	Year ended December
<i>(thousands, except percentages)</i>	2017	2016
Long-term debt	\$ 32,363	\$ 25,800
Shareholders' equity	115,920	116,672
Total capitalization	\$ 148,283	\$ 142,472
Debt to total capitalization (see <i>Terminology</i> for definition)	21.8%	18.1%

For the quarter ended March 31, 2017, the Corporation had a debt to total capitalization of 21.8%, unused revolving credit facility of \$51.0 million and has not incurred any events of default under the terms of its credit facility agreement. Subsequent to March 31, 2017 the Corporation completed a bought deal offering with net proceeds of approximately \$55.0 million. Of these proceeds, \$32.4 million were used to pay down debt existing at March 31, 2017.

As at March 31, 2017, the Corporation had net working capital of \$8.6 million compared to its working capital position of \$13.8 million at December 31, 2016. The increase in working capital is primarily attributable to timing differences related in the cash settlement of new plant equipment, and deposits related to the acquisition of equipment related across the plants.

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 issue additional shares or increase its borrowing capacity, if necessary, to provide for capital spending and sustain its property, plant and equipment.

DIVIDENDS

Fiscal Period	Payment Date	# of Shares outstanding	2017		2016	
			Amount per Share	Total Amount ⁽¹⁾	Amount per Share	Total Amount ⁽²⁾
January	February 15	8,023,480	\$ 0.10000	\$ 802	\$ 0.10000	\$ 799
February	March 15	8,023,480	0.10000	802	0.10000	799
March	April 13	8,023,480	0.10000	802	0.10000	799
Q1			\$ 0.30000	\$ 2,407	\$ 0.30000	\$ 2,396
YTD			\$ 0.30000	\$ 2,407	\$ 0.30000	\$ 2,396

⁽¹⁾ The total amount of dividends paid was \$0.10000 per share for a total of \$802,348 per month for January - March 2017; when rounded in thousands, \$2,407 of dividends were paid for the quarterly period.

⁽²⁾ The total amount of dividends paid was \$0.10000 per share for a total of \$798,571 per month for January - March 2016; when rounded in thousands, \$2,396 of dividends were paid for the quarterly period.

For the three months ended March 31, 2017, the Corporation declared a \$0.300 per share dividend compared to \$0.563 per Share of Distributable Cash Flow (see *Terminology*). The payout ratio for the three months ended March 31, 2017 was 53.5%

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 Directors of the Corporation. All such dividends are discretionary. Dividends are declared payable each month in equal amounts to Shareholders on the last business day of each month and are paid by the 15th of the following month.

The Corporation designates all dividends paid or deemed to be paid as Eligible Dividends for purposes of subsection 89(14) of the Income Tax Act (Canada), and similar provincial and territorial legislation, unless indicated otherwise.

DISTRIBUTABLE CASH FLOW *(see Terminology)*

(all amounts in this section in \$000's 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:

<i>(thousands, except percentages and per share amounts)</i>	2017	2016				2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Cash provided by operating activities	\$ 6,300	\$ 6,071	\$ 7,581	\$ 4,143	\$ 6,726	\$ 3,897	\$ 5,733	\$ 3,773
<i>Deduct (add):</i>								
Net changes in non-cash working capital items ⁽¹⁾	1,214	(336)	1,102	(2,625)	665	(1,387)	(1,193)	(2,302)
Share-based compensation	405	368	337	330	483	262	329	334
Maintenance capital expenditures ⁽²⁾	179	264	289	1,270	293	420	226	268
Distributable cash flow	\$ 4,502	\$ 5,775	\$ 5,853	\$ 5,168	\$ 5,285	\$ 4,602	\$ 6,371	\$ 5,473
Dividends declared	2,407	2,407	2,407	2,403	2,396	2,396	2,396	2,391
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300
Payout ratio ⁽³⁾	53.5%	41.7%	41.1%	46.5%	45.3%	52.1%	37.6%	43.7%
Weighted average shares outstanding during the period, basic	7,979	7,965	7,957	7,952	7,946	7,930	7,922	7,916
Weighted average shares outstanding during the period, diluted	7,999	8,004	7,991	7,965	7,965	7,948	7,974	7,966
Trailing-twelve months ("TTM")								
Distributable cash flow	21,298	22,081	20,908	21,426	21,731	21,355	21,661	21,086
Dividends	9,624	9,613	9,602	9,591	9,579	9,570	9,394	9,136
Payout ratio ⁽³⁾	45.2%	43.5%	45.9%	44.8%	44.1%	44.8%	43.4%	43.3%

(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, and May 12, 2017, the Corporation had 8,023,480 and 9,541,480 common shares outstanding. Basic and diluted weighted average number of common shares outstanding for the three months ended March 31, 2017 were 7,978,846 and 7,999,181, respectively (7,945,997 and 7,964,604, respectively, for the comparative 2016 interim periods).

In accordance with the LTI plan and in conjunction with the performance of the Corporation in the 2016 fiscal year, on April 21, 2017 the Compensation, Nominating and Corporate Governance Committee of the Board of Directors approved LTI compensation of \$1.5 million (2016 – \$1.6 million) to be paid as shares issued from treasury. As at March 31, 2017, the value of the shares held in trust by the LTI trustee was \$1.8 million (December 31, 2016 – \$1.9 million) which was comprised of 44,634 in unvested common shares (December 31, 2016 – 39,716) with a nil aggregate cost (December 31, 2016 – \$nil).

As at May 12, 2017 there were 9,541,480 common shares issued and outstanding including 44,634 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 director of the Corporation. For the three period ended March 31, 2017, the Corporation incurred fees totaling \$34,500, compared to \$34,500 for the same period of fiscal 2016.

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. There have been no changes in the accounting estimates from those reported at December 31, 2016.

TERMINOLOGY

EBITDA

We report on our EBITDA (Earnings before interest, taxes, depreciation and amortization) because it is a key measure used by management to evaluate performance. EBITDA is utilized in measuring compliance with debt covenants and in making decisions relating to dividends to Shareholders. We believe EBITDA assists investors in assessing 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, gain/loss on disposal and impairment charges, 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,	
	2017	2016
Net earnings	\$ 1,250	\$ 2,532
Add:		
Income tax expense	520	1,114
Finance expense	185	393
Depreciation of property, plant and equipment	2,381	2,231
Amortization of intangible assets	428	506
EBITDA	\$ 4,764	\$ 6,776

Non-GAAP Measures

Distributable Cash Flow

Distributable cash flow is a measure used by management to evaluate its 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 shall 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 deduction of net changes in non-cash working capital items, share-based compensation, and maintenance capital expenditures.

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 Capitalization

Debt to total capitalization is defined by management as the total long-term debt divided by the Corporation’s total shareholder’s equity. This is a measure used by investors to assess the Corporation’s financial structure.

Distributable Cash Flow, Payout Ratio, and Debt to Total Capitalization, , 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, 2017, the Corporation has not entered into any off balance sheet arrangements.

CHANGES IN ACCOUNTING POLICIES

The Corporation has prepared its March 31, 2017 interim condensed consolidated financial statements in accordance with IAS 34, Interim Financial Reporting, as issued by the IASB and incorporated the same accounting principles and methods used in the preparation of the audited annual Consolidated Financial Statements. See Note 2 of the Corporation's audited annual Consolidated Financial Statements for more information regarding the significant accounting principles used to prepare the interim Consolidated Financial Statements.

RECENT ACCOUNTING PRONOUNCEMENTS

The following standard has been issued but has not yet been applied in preparing the 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 Corporation is in the process of evaluating the impact that IFRS 15 may have on the financial statements and anticipates to be in a position by the second quarter of 2017 to determine the overall impact to the Corporation's financial statements.
- 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 is in the process of evaluating the impact that IFRS 9 may have on the financial statements.
- IFRS 2, Share-based Payment, was amended in June 2016 by IASB, 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 Corporation is in the process of evaluating the impact that the amendment may have on the 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.

CRITICAL RISKS AND UNCERTAINTIES

As at March 31, 2017, there are no material changes in the Corporation's risks or risk management activities since December 31, 2016. The Corporation's results of operations, business prospects, financial condition, cash dividends to Shareholders and the trading price of the Corporation's Shares are subject to a number of risks. These risk factors include: dependence on long-term contracts and the associated renewal risk thereof; the effects of market volatility and uncertainty; potential future tax changes; the competitive environment; our ability to acquire and successfully integrate and operate additional businesses; utility costs; the labour markets; the fact that our credit facility imposes numerous covenants and encumbers assets; and, environmental matters.

For a discussion of these risks and other risks associated with an investment in Corporation Shares, see *Risk Factors – Risks Related to K-Bro and the Laundry and Linen Industry* detailed in the Corporation's Annual Information Form that is available at www.sedar.com.

CONTROLS AND PROCEDURES

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

Disclosure Controls and Procedures

The Corporation has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements of K-Bro was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee.

Internal Controls over Financial Reporting

There were no changes in internal controls over financial reporting ("ICFR") during the three month period ended March 31, 2017 that materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

The Corporation's CEO and CFO have determined that there is not a material weakness in the design of disclosure controls and procedures and internal controls over financial reporting which existed as at March 31, 2017.

A discussion of the internal controls over financial reporting can be found under the MD&A that acCorporation the audited consolidated financial statements for the year ended December 31, 2016.

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

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

Additional information regarding K-Bro including required securities filings are available on our website at www.k-brolinen.com and on the Canadian Securities Administrators' website at www.sedar.com; the System for Electronic Document Analysis and Retrieval ("SEDAR").

Vous pouvez obtenir des renseignements supplémentaires sur la Société, y compris les documents déposés auprès des autorités de réglementation, sur notre site Web, au www.k-brolinen.com et sur le site Web des autorités canadiennes en valeurs mobilières au www.sedar.com, le site Web du Système électronique de données, d'analyse et de recherche (« SEDAR »).