



K·BRO

Q3, 2015
Management's
Discussion &
Analysis



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 and nine months ended September 30, 2015 and the audited Consolidated Financial Statements, as well as the MD&A, for the year ended December 31, 2014. 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 November 10, 2015.

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.

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 additional GAAP and 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 and one distribution centre in nine Canadian cities including Victoria, Vancouver, Calgary, Edmonton, Saskatoon, Regina, Toronto, Montréal and Québec City.

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 September 30,		
<i>(thousands, except share and per share amounts)</i>	2015	2014	2013
Revenue	\$ 37,700	\$ 36,028	\$ 34,551
Earnings before income taxes	5,375	5,182	3,674
Net earnings	3,852	3,751	2,571
<i>Net earnings per share:</i>			
Basic	\$ 0.49	\$ 0.53	\$ 0.37
Diluted	\$ 0.48	\$ 0.53	\$ 0.36
Total assets	145,106	117,983	107,911
Long-term debt	-	21,908	17,028
Dividends declared to Shareholders	2,395	2,137	2,039
Dividends declared to Shareholders per share	\$ 0.300	\$ 0.300	\$ 0.288
<i>Weighted average number of shares outstanding:</i>			
Basic	7,922,047	7,041,704	7,031,487
Diluted	7,973,771	7,095,889	7,054,936

	Nine Months Ended September 30,		
<i>(thousands, except share and per share amounts)</i>	2015	2014	2013
Revenue	\$ 106,857	\$ 102,647	\$ 98,858
Earnings before income taxes	14,275	12,658	11,593
Net earnings	9,910	9,115	8,219
<i>Net earnings per share:</i>			
Basic	\$ 1.25	\$ 1.30	\$ 1.17
Diluted	\$ 1.25	\$ 1.29	\$ 1.17
Total assets	145,106	117,983	107,911
Long-term debt	-	21,908	17,028
Dividends declared to Shareholders	7,174	6,278	6,103
Dividends declared to Shareholders per share	\$ 0.900	\$ 0.883	\$ 0.862
<i>Weighted average number of shares outstanding:</i>			
Basic	7,917,349	7,035,718	7,019,737
Diluted	7,958,074	7,089,544	7,041,823

SUMMARY OF INTERIM RESULTS AND KEY EVENTS

Regina Facility Development

Management estimates that the costs to commission a new facility in Regina are expected to be approximately \$36.2 million for new equipment, land and building. Costs associated with the new facility began to be incurred in Q2, 2014 and will continue to be incurred until Q4, 2015. As at September 30, 2015, K-Bro has incurred \$35.1 million of the total expected capital cost. The facility commenced processing in late Q3 and management expects the transition to be completed in late Q4,

2015. As expected, the transition costs have negatively impacted EBITDA margins in Q3, and management expects this impact to continue into Q4, 2015.

Effects of Economic Uncertainty

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

- Approximately 63.6% of its revenues in the quarter were from large publicly funded healthcare customers which are geographically diversified across multiple provinces;
- At September 30, 2015, K-Bro had unutilized borrowing capacity of \$48.4 million or 96.7% of the revolving credit line available and cash of \$3.0 million; 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.

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. The following outlines our results on a period-to-period comparative basis in each of these areas:

(thousands, except percentages)

Category	Indicator	Q3, 2015	Q3, 2014	YTD 2015	YTD 2014
Growth	EBITDA ⁽¹⁾	-0.5%	32.8%	5.3%	11.2%
	Revenue	4.6%	4.3%	4.1%	3.8%
	Distributable cash flow	9.9%	38.0%	9.3%	12.0%
Profitability	EBITDA ⁽¹⁾	\$ 7,577	\$ 7,617	\$ 20,967	\$ 19,908
	EBITDA margin	20.1%	21.1%	19.6%	19.4%
	Net earnings	\$ 3,852	\$ 3,751	\$ 9,910	\$ 9,115
Stability	Debt to total capitalization ⁽²⁾	0.0%	22.7%	0.0%	22.7%
	Unutilized line of credit	\$ 48,350	\$ 17,442	\$ 48,350	\$ 17,442
	Cash on hand	\$ 3,038	\$ -	\$ 3,038	\$ -
	Payout ratio	37.6%	36.7%	42.8%	40.9%
	Dividends declared per share	\$ 0.300	\$ 0.300	\$ 0.900	\$ 0.883
Cost containment	Wages and benefits	45.0%	44.9%	44.8%	44.8%
	Utilities	6.0%	6.0%	6.0%	6.6%
	Expenses included in EBITDA	79.9%	78.9%	80.4%	80.6%

⁽¹⁾ EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, gain or loss on disposals, financial charges and depreciation and amortization). See *Terminology*.

⁽²⁾ Debt to total capitalization is defined as total debt divided by total capital. See *Terminology*.

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.

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:

	2015			2014			2013	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Healthcare revenue	23,978	24,005	23,857	23,848	23,068	23,330	22,641	22,607
Hospitality revenue	13,722	11,332	9,963	9,945	12,960	11,018	9,630	9,737
Total revenue	37,700	35,337	33,820	33,793	36,028	34,348	32,271	32,344
Expenses included in EBITDA	30,123	28,251	27,516	27,460	28,411	27,344	26,984	26,923
EBITDA ⁽¹⁾	7,577	7,086	6,304	6,333	7,617	7,004	5,287	5,421
EBITDA as a % of revenue	20.1%	20.1%	18.6%	18.7%	21.1%	20.4%	16.4%	16.8%
Depreciation and amortization	2,326	2,219	2,178	2,255	2,273	2,216	2,194	2,304
Finance expenses (income)	(128)	177	(98)	103	125	196	169	176
Loss (gain) on disposal of equipment	4	14	-	(30)	37	12	28	25
Earnings before income taxes	5,375	4,676	4,224	4,005	5,182	4,580	2,896	2,916
Income tax expense	1,523	1,637	1,205	922	1,431	1,247	865	799
Net earnings	3,852	3,039	3,019	3,083	3,751	3,333	2,031	2,117
Net earnings as a % of revenue	10.2%	8.6%	8.9%	9.1%	10.4%	9.7%	6.3%	6.5%
Basic earnings per share	0.486	0.384	0.381	0.433	0.533	0.474	0.289	0.301
Diluted earnings per share	0.483	0.382	0.380	0.432	0.529	0.471	0.287	0.300
Total assets	145,106	135,516	133,229	132,638	117,983	117,984	113,824	112,330
Total long-term financial liabilities	6,776	6,361	5,892	5,815	28,267	29,081	25,066	25,619
Funds provided by operations	5,733	3,773	4,214	9,401	7,787	2,705	4,016	6,399
Long-term debt	-	-	-	-	21,908	22,587	18,609	19,640
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.296	0.288	0.288

⁽¹⁾ EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, gain or loss on disposals, financial charges and depreciation amortization). See *Terminology*.

Revenue, Earnings and EBITDA

For the three months ended September 30, 2015, K-Bro's revenue increased by 4.6% to \$37.7 million from \$36.0 million in the comparative period. This increase was due to organic growth at existing customers

across the plants, new customers secured in existing markets, and additional volume from the 3sHealth region associated with the commissioning of the new facility in Regina. In Q3, 2015 approximately 63.6% of K-Bro's revenue was generated from healthcare institutions which is comparable to 64.0% in Q3, 2014.

EBITDA remained constant at \$7.6 million for the three months ended September 30, 2015, compared to \$7.6 million in the comparative period of 2014. This was predominantly as a result of the flow through of revenue as described above offset by transition costs associated with the commissioning of the new Regina facility, and increased corporate costs associated with business development.

Net earnings increased by \$0.1 million or 2.7% from \$3.8 million in Q3, 2014 to \$3.9 million in Q3, 2015. Net earnings as a percentage of revenue decreased to 10.2% compared to 10.4% in 2014.

Operating Expenses

Wages and benefits increased to \$17.0 million in 2015 from \$16.2 million in 2014, and increased as a percentage of revenue from 44.9% in 2014 to 45.0% in the same period of 2015. This increase in the period is due to incremental labour required to process increased volume, the transition costs occurred for the Regina start-up as well as rising labour costs from incremental increases in the wage rate.

Linen expenses decreased to \$3.7 million in 2015 from \$3.8 in 2014, and decreased as a percentage of revenue to 9.9% from 10.4% in 2014. The decrease is a result of timing of expenditures associated with the procurement of linen.

Utility costs increased to \$2.3 million compared to \$2.2 million in 2014 and remained constant at 6.0% as a percentage of revenue in Q3, 2015, as compared to 2014.

Delivery costs increased to \$1.7 million and to 4.6% as a percentage of revenues compared to \$1.6 million and 4.4% in Q3, 2014. The increase is a result of increased business activity and transition costs associated with the commissioning of the new Regina facility.

Occupancy costs increased to \$1.3 million and to 3.4% as a percentage of revenue, compared to \$1.1 million and 3.1% in Q3, 2014. This increase is a result of a new distribution facility and additional costs associated with the commissioning of the new Regina facility.

Corporate costs increased in Q3, 2015 by \$0.3 million and to 4.6% as a percentage of revenues over the comparative period of 2014, from 4.0% in Q3, 2014. The increase is due to an increase in professional costs to support potential business developments, increased corporate travel costs incurred to support the new Regina plant transition, and an increase in the management personnel to support the company'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.

Financial recovery increased to \$0.1 million in Q3, 2015 compared to an expense of \$0.1 in Q3, 2014. The recovery for Q3, 2015 is mainly attributable to a foreign exchange gain and the reduction of interest

expense as compared to Q3, 2014.

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 effect of the increase in the Alberta provincial tax rate on the current income tax expense and the deferred tax liability.

LIQUIDITY AND CAPITAL RESOURCES

In Q3, 2015 cash generated by operating activities was \$5.7 million, compared to cash generated by operating activities of \$7.8 million during Q3, 2014. The change in cash from operations is due to the change in working capital items driven mainly from purchases related to the new Regina facility.

During Q3, 2015, cash used in financing activities amounted to \$2.4 million compared to cash used in financing activities of \$2.8 million in Q3, 2014. Financing activities in Q3, 2015 consisted of dividends paid to Shareholders.

Investing activities resulted in a use of cash of \$13.6 million in Q3, 2015 compared to \$5.0 million in Q3, 2014. Investing activities for the current quarter related primarily to the construction of the new Regina facility.

Contractual Obligations

At September 30, 2015, payments due under contractual obligations for the next five years and thereafter are as follows:

<i>(thousands)</i>	Payments due by Period				
	Total	< 1 Year	1 - 3 Years	4 - 5 Years	> 5 Years
Long-term debt	\$ -	-	-	-	-
Operating leases and utility commitments	\$ 29,986	1,587	10,631	5,671	12,097
Linen purchase obligations	\$ 1,922	1,922	-	-	-
Property, plant and equipment commitments	\$ 874	874	-	-	-

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

<i>(thousands, except percentages)</i>	Nine Months Ended September 2015	Year Ended December, 31 2014
Long-term debt	\$ -	\$ -
Shareholders' equity	113,216	109,438
Total capitalization	\$ 113,216	\$ 109,438
Debt to total capitalization (see <i>Terminology</i> for definition)	0.0%	0.0%

For the quarter ended September 30, 2015, the Corporation had a debt to total capitalization of 0.0%, unused revolving credit facility of \$48.4 million and has not incurred any events of default under the terms of its credit facility agreement.

As at September 30, 2015, the Corporation had net working capital of \$5.5 million compared to its working capital position of \$21.7 million at December 31, 2014. The decrease in working capital is attributable to expenditures associated with the Regina facility.

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	2015		2014	
			Amount per Share	Total Amount ⁽³⁾	Amount per Share	Total Amount ⁽¹⁾⁽²⁾
January	February 15	7,959,735	\$ 0.10000	\$ 796	\$ 0.09580	\$ 680
February	March 15	7,959,735	0.10000	796	0.09580	680
March	April 13	7,959,735	0.10000	796	0.09580	680
Q1			\$ 0.30000	\$ 2,388	\$ 0.28740	\$ 2,039
April	May 15	7,959,735	\$ 0.10000	\$ 796	\$ 0.09580	\$ 680
May	June 15	7,959,735	0.10000	796	0.10000	710
June	July 15	7,985,713	0.10000	799	0.10000	713
Q2			\$ 0.30000	\$ 2,391	\$ 0.29580	\$ 2,102
July	August 14	7,985,713	\$ 0.10000	\$ 799	\$ 0.10000	\$ 713
August	September 15	7,985,713	0.10000	799	0.10000	712
September	October 15	7,985,713	0.10000	799	0.10000	712
Q3			\$ 0.30000	\$ 2,395	\$ 0.30000	\$ 2,137
YTD			\$ 0.90000	\$ 7,174	\$ 0.88320	\$ 6,278

⁽¹⁾ The total amount of dividends paid was \$0.09580 per share for a total of \$679,734 per month for January - March 2014; when rounded in thousands, \$2,039 of dividends were paid for the quarterly period.

⁽²⁾ The total amount of dividends paid was \$0.09580 per share for a total of \$679,734 for April 2014, \$709,534 for May 2014, and \$0.10000 per share for a total of \$712,961 for June 2014. When rounded in thousands, \$2,102 of dividends were paid for the quarterly period.

⁽³⁾ The total amount of dividends paid was \$0.10000 per share for a total of \$798,571 per month for July - September 2015; when rounded in thousands, \$2,395 of dividends were paid for the quarterly period.

For the three months ended September 30, 2015, the Corporation declared a \$0.300 per share dividend compared to \$0.799 per Share of Distributable Cash Flow (see *Terminology*). The payout ratio for the three months ended September 30, 2015 was 37.6%.

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 per share amounts and percentages)</i>	2015			2014				2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Cash provided by operating activities	\$ 5,733	\$ 3,773	\$ 4,214	\$ 9,401	\$ 7,787	\$ 2,705	\$ 4,016	\$ 6,399
<i>Deduct (add):</i>								
Net changes in non-cash working capital items ⁽¹⁾	(1,193)	(2,302)	(1,439)	3,878	1,544	(2,995)	(1,087)	1,201
Share-based compensation	329	334	379	306	319	102	372	261
Maintenance capital expenditures ⁽²⁾	226	268	365	309	127	491	315	180
Distributable cash flow	\$ 6,371	\$ 5,473	\$ 4,909	\$ 4,908	\$ 5,797	\$ 5,107	\$ 4,416	\$ 4,757
Dividends declared	2,395	2,391	2,388	2,220	2,137	2,102	2,039	2,039
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.296	0.288	0.288
Payout ratio ⁽³⁾	37.6%	43.7%	48.6%	45.2%	36.7%	41.0%	46.2%	42.8%
Weighted average shares outstanding during the period, basic	7,922	7,916	7,914	7,113	7,042	7,034	7,032	7,031
Weighted average shares outstanding during the period, diluted	7,974	7,966	7,942	7,134	7,096	7,083	7,072	7,065
Trailing-twelve months ("TTM")								
Distributable cash flow	21,661	21,087	20,721	20,228	20,077	18,482	18,215	18,437
Dividends	9,394	9,136	8,847	8,498	8,317	8,219	8,153	8,142
Payout ratio ⁽³⁾	43.4%	43.3%	42.7%	42.0%	41.4%	44.5%	44.8%	44.2%

⁽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 includes 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 September 30 and November 10, 2015, the Corporation had 7,985,713 common shares outstanding. Basic and diluted weighted average number of common shares outstanding for the three months ended September 30, 2015 were 7,922,047 and 7,973,771 respectively, (7,041,704 and 7,095,889, respectively, for the comparative 2014 interim periods).

In accordance with the LTI plan and in conjunction with the performance of the Corporation in the 2014 fiscal year, on May 6, 2015 the Compensation, Nominating and Corporate Governance Committee of the Board of Directors approved LTI compensation of \$1.4 million (2014 – \$1.4 million) to be paid as shares issued from treasury. As at September 30, 2015, the value of the shares held in trust by the LTI trustee was \$3.0 million (December 31, 2014 – \$2.1 million) which was comprised of 63,666 in unvested common shares (December 31, 2014 – 45,368) with a nil aggregate cost (December 31, 2014 – \$nil).

As at November 10, 2015, there were 7,985,713 common shares issued and outstanding including 63,666 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 September 30, 2015, the Corporation incurred fees totaling \$34,500, compared to \$34,500 for the same period of fiscal 2014.

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, 2014.

TERMINOLOGY

Additional GAAP Measures

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, loss on disposal and impairment charges, and income taxes.

EBITDA is not a calculation based on IFRS and is not considered an alternative to net earnings in measuring K-Bro's performance. EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other issuers. 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net earnings	\$ 3,852	\$ 3,751	\$ 9,910	\$ 9,115
<i>Add:</i>				
Income tax expense	1,523	1,431	4,365	3,543
Finance expense (recovery)	(128)	125	(49)	490
Depreciation of property, plant and equipment	1,819	1,742	5,220	5,092
Amortization of intangible assets	507	531	1,503	1,591
Loss on disposal of property, plant and equipment	4	37	18	77
EBITDA	\$ 7,577	\$ 7,617	\$ 20,967	\$ 19,908

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. References to "Distributable cash flow" are to cash provided by (used in) operating activities (including the net change in non-cash working capital balances) less 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, Debt to Total Capitalization, Adjusted EBITDA, Adjusted net earnings, and Adjusted net earnings per share are not calculations based on IFRS and are not considered an alternative to IFRS measures in measuring K-Bro's performance. Distributable Cash Flow, Payout Ratio, Adjusted EBITDA, Adjusted net earnings, and Adjusted net earnings per share do not have standardized meanings in IFRS and are therefore not likely to be comparable with similar measures used by other issuers.

Off Balance Sheet Arrangements

As at September 30, 2015, the Corporation has not entered into any off balance sheet arrangements.

CHANGES IN ACCOUNTING POLICIES

The Corporation has prepared its September 30, 2015 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.

The Corporation has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2015. These changes were made in accordance with the applicable transitional provisions.

- IFRS 8, *Operating Segments*, requires the Corporation to disclose judgements made by management in aggregating segments, and a reconciliation of segment assets to the entity's assets when segment assets are reported. The adoption of the amendment to IFRS 8 did not result in any change to the method of recognizing segments for the Corporation.

CRITICAL RISKS AND UNCERTAINTIES

As at September 30, 2015, there are no material changes in the Corporation's risks or risk management activities since December 31, 2014. 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 September 30, 2015 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 September 30, 2015.

A discussion of the internal controls over financial reporting can be found under the MD&A that accompany the audited consolidated financial statements for the year ended December 31, 2014.

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 »).