K·BRO

Q3, 2017

MANAGEMENT'S DISCUSSION & ANALYSIS

WE ARE DEPENDABLE.

www.k-brolinen.com | inquiries@k-brolinen.com

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 and nine months ended September 30, 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 November 9, 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 costs, minimum wage legislation 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; (viii) changes or proposed changes to minimum wage laws in Ontario, British Columbia and Alberta, which could have an adverse effect on expenses in respect of employees situated in those provinces. While a portion of such expenses may be passed on to or be recoverable from customers, there can be no assurances that that will occur and (ix) 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) frequency of one-time costs impacting quarterly and annual financial results; and (iv) 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, the anticipated capital costs for the Toronto and Vancouver facilities, calculation of costs, including one-time costs impacting the quarterly financial results, 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.

TABLE OF CONTENTS

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

(thousands, except percentages and per share amounts)	Three Months Ended September 30, 2017		2016		2015
Revenue	$ 43,598	$	41,557	$	37,700
Earnings before income taxes	4,797		4,801		5,375
Net earnings	3,418		3,414		3,852
Net earnings per share:					
Basic	$ 0.36	$	0.43	$	0.49
Diluted	$ 0.36	$	0.43	$	0.48
Total assets	199,452		153,923		145,106
Long-term debt	-		10,338		-
Dividends declared to Shareholders	2,875		2,407		2,395
Dividends declared to Shareholders per share	$ 0.300	$	0.300	$	0.300
Weighted average number of shares outstanding:					
Basic	9,510,725		7,957,428		7,922,047
Diluted	9,547,538		7,990,865		7,973,771

(thousands, except percentages and per share amounts)	Nine Months Ended September 30, 2017		2016		2015
Revenue	$ 123,050	$	119,838	$	106,857
Earnings before income taxes	9,917		13,159		14,275
Net earnings	7,005		9,330		9,910
Net earnings per share:					
Basic	$ 0.79	$	1.17	$	1.25
Diluted	$ 0.79	$	1.17	$	1.25
Total assets	199,452		153,923		145,106
Long-term debt	-		10,338		-
Dividends declared to Shareholders	8,153		7,206		7,174
Dividends declared to Shareholders per share	$ 0.900	$	0.900	$	0.900
Weighted average number of shares outstanding:					
Basic	8,869,971		7,951,796		7,917,349
Diluted	8,907,010		7,972,568		7,958,074

SUMMARY OF INTERIM RESULTS, KEY EVENTS AND OUTLOOK

Financial Growth

Net earnings were $3.4 million or $0.36 per share (basic). Cash flow from operating activities was $3.8 million and distributable cash flow was $7.2 million. Revenue increased in the third quarter of 2017 to $43.6 million or by 4.9% compared to 2016. This increase was due to additional awarded healthcare volume from the Vancouver lower mainland contract, William Osler Health System volume, Trillium Health Partners volume, organic growth at existing customers, and new customers secured in existing markets.

EBITDA (see Terminology) increased in the third quarter to $8.1 million from $7.5 million in 2016, which is an increase of 7.6%. The EBITDA margin increased from 18.1% in 2016 to 18.6% in 2017. The change in EBITDA and margin was primarily associated with the relocation of our new Toronto facility, and the efficiencies gained as a result of the capital expenditures made in Toronto. Although significant progress has been made from previous quarters, management still estimates one-time and transition costs incurred in Q3, 2017 to be approximately $0.5 million and on a year-to-date basis to be approximately $4.1 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 K-Bro 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, K-Bro 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. As previously announced we have secured $7.6mm of new revenue from William Osler Health Systems and Trillium Health Partners. The transition of the William Osler Health Systems was completed in the second quarter and the transition of Trillium commenced in Q3 and was completed early in the fourth quarter. 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. We will be commencing the six new healthcare customers during Q4 2017, which is earlier than anticipated to help facilitate the logistical management and strategic requirements of our customers.

The construction and/or upgrade of three large facilities enable us to bid on a significant amount of additional business, but also will create margin pressure through 2017 and 2018 as K-Bro incurs one-time and transition costs associated with these large investments. Those one-time and transition costs were approximately $0.5 million for the third 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 K-Bro to achieve more growth and a lower cost structure into the future and that K-Bro 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 $55 million. As at September 30, 2017, K-Bro has incurred $17.6 million of the total expected capital costs. The new Vancouver plant will be located in Burnaby, and K-Bro expects to transition to the new facility during the second 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 second and third quarters of 2018 while the plant becomes operational.

Toronto Facility Development

During the first quarter, K-Bro completed the transition to its new state-of-the-art facility in Toronto. Management estimates that the cost to commission the new leased facility is $37 million for new efficiency enhancing equipment, and leaseholds. As at September 30, 2017, K-Bro has incurred $35.4 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. Transition costs associated with the new Toronto plant have started to level off, with margins expecting to return to historical levels during the fourth quarter of 2017.

Toronto Contract Awards

On February 28, 2017 K-Bro 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 K-Bro and St. Michaels Hospital and is a result of a competitive RFP process.

On March 24, 2017 K-Bro 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 and processing commenced in Q3 2017 (approximately 40% of the volume transitioned during the quarter), with the full transition to be completed in the fourth quarter.

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 K-Bro's contract proposal and on January 31, 2017 K-Bro locked out the 14 Toronto drivers and employed replacement drivers to service its Toronto accounts. There have been no service interruptions to any customers as a result of the lock-out. In September, K-Bro reinstated five drivers on terms agreed to between the employee and employer. No collective agreement has been negotiated and employees are operating in a non-union environment on terms substantially the same as the contract drivers. K-Bro has been advised that the Ministry of Labour is closing the file regarding this labour dispute. Management estimates transition and one-time costs associated with this lock-out were approximately $0.1 million in Q3, 2017 and $0.6 million on a year-to-date basis.

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 expenses of the offering and the underwriter's fee were $55.0 million. 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.

	2017
Build out of Corporation's facilities in Toronto and Vancouver	$ 21,187
Repayment of indebtedness	32,363
General corporate purposes	384
Use of proceeds as at September 30, 2017	53,934
Amount remaining to fund Corporation's facilities in Toronto and Vancouver	1,066
Net proceeds from share issuance	**$ 55,000**

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 66.6% of its revenues in the quarter were from large publicly funded healthcare customers which are geographically diversified across multiple provinces;
- At September 30, 2017, K-Bro had unutilized borrowing capacity of $83.4 million or 98.1% 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

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:

(thousands, except percentages and per share amounts) Category	Indicator	Q3 2017	Q3 2016	YTD 2017	YTD 2016
Growth	EBITDA(1)	7.6%	-0.5%	-10.4%	4.1%
	Revenue	4.9%	10.2%	2.7%	12.1%
	Distributable cash flow	23.6%	-8.1%	5.9%	-2.7%
Profitability	EBITDA(1)	$ 8,111	$ 7,538	$ 19,568	$ 21,829
	EBITDA margin	18.6%	18.1%	15.9%	18.2%
	Net earnings	$ 3,418	$ 3,414	$ 7,005	$ 9,330
Stability	Debt to total capitalization(2)	0.0%	8.1%	0.0%	8.1%
	Unutilized line of credit	$ 83,350	$ 73,012	$ 83,350	$ 73,012
	Payout ratio	39.7%	41.1%	47.2%	44.2%
	Dividends declared per share	$ 0.300	$ 0.300	$ 0.900	$ 0.900
Cost containment	Wages and benefits	40.8%	41.3%	41.2%	40.8%
	Utilities	5.8%	6.2%	6.2%	6.1%
	Expenses included in EBITDA	81.4%	81.9%	84.1%	81.8%

(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*.

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

Quarterly Financial Information

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

	2017			2016				2015
(thousands, except percentages and per share amounts)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Healthcare revenue	29,021	28,499	28,053	28,374	27,333	27,553	28,124	27,100
Hospitality revenue	14,577	11,995	10,905	10,877	14,224	11,916	10,688	10,580
Total revenue	43,598	40,494	38,958	39,251	41,557	39,469	38,812	37,680
Expenses included in EBITDA	35,487	33,801	34,194	32,844	34,019	31,954	32,036	31,507
EBITDA(1)	8,111	6,693	4,764	6,407	7,538	7,515	6,776	6,173
EBITDA as a % of revenue (EBITDA margin)	18.6%	16.5%	12.2%	16.3%	18.1%	19.0%	17.5%	16.4%
Depreciation and amortization	3,213	3,246	2,809	2,866	2,748	2,674	2,737	2,859
Finance expense (recovery)	101	61	185	247	(11)	110	393	156
Loss on disposal of equipment	-	36	-	86	-	19	-	172
Earnings before income taxes	4,797	3,350	1,770	3,208	4,801	4,712	3,646	2,986
Income tax expense	1,379	1,013	520	1,011	1,387	1,328	1,114	828
Net earnings	3,418	2,337	1,250	2,197	3,414	3,384	2,532	2,158
Net earnings as a % of revenue	7.8%	5.8%	3.2%	5.6%	8.2%	8.6%	6.5%	5.7%
Basic earnings per share	0.359	0.257	0.157	0.276	0.429	0.426	0.319	0.272
Diluted earnings per share	0.358	0.256	0.156	0.274	0.427	0.425	0.318	0.271
Total assets	199,452	195,957	180,583	168,289	153,923	148,068	146,816	143,023
Total long-term financial liabilities	9,205	8,407	41,134	33,949	17,596	14,360	12,717	8,958
Funds provided by operations	3,788	2,297	6,300	6,071	7,581	4,143	6,726	3,897
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 September 30, 2017, K-Bro's revenue increased by 4.9% to $43.6 million from $41.6 million in the comparative period, this increase was due to additional awarded healthcare volume from the Vancouver lower mainland contract signed in 2016, William Osler Health System volume, Trillium

Health Partners volume, organic growth at existing customers, and new customers secured in existing markets. For the nine months ended September 30, 2017, K-Bro's revenue increased by 2.7% to $123.1 million from $119.8 million in the comparative period, this increase was due to the additional awarded healthcare volume from the Vancouver lower mainland contract signed in 2016, William Osler Health System volume, Trillium Health Partners volume, organic growth at existing customers, 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. For the three months ended September 30, 2017, approximately 66.6% of K-Bro's revenue was generated from healthcare institutions which is slightly higher compared to 65.8% in Q3, 2016, due to stronger healthcare volumes during the quarter primarily related to the new volume discussed above. On a year-to-date basis approximately 69.5% of K-Bro's revenue was generated from healthcare institutions which is slightly higher compared to 69.3% in 2016.

EBITDA increased to $8.1 million for the three months ended September 30, 2017, compared to $7.5 million in the comparative period of 2016. As anticipated, EBITDA decreased to $19.6 million for the nine months ended September 30, 2017, compared to $21.8 million in the comparative period of 2016. For the quarter, significant gains in productivity have been made in Toronto plant, and transition and one-time costs have tapered off. As a result, the EBITDA and EBITDA margin have improved from Q1 and Q2 2017. For the year, increases in revenue were offset by transition costs related to the transition to our new Toronto facility, training costs related to new staff, and costs related to mitigating the effect related to the lock-out of the unionized delivery drivers in Toronto during the quarter. In addition, throughout 2017 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 $0.5 million for the quarter and $4.1 million year-to-date.

For the three months ended September 30, 2017, net earnings remained relatively constant at $3.4 million and net earnings as a percentage of revenue decreased by 0.4% to 7.8% in Q3, 2017 from 8.2% in Q3, 2016. For the nine months ended September 30, 2017, net earnings decreased by $2.3 million or 24.9% from $9.3 million in 2016 to $7.0 million in 2017, and net earnings as a percentage of revenue decreased by 2.1% to 5.7% in 2017 from 7.8% in 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 in the third quarter increased to $17.8 million in 2017 from $17.2 million in 2016, and decreased as a percentage of revenue to 40.8% in 2017 from 41.3% in 2016. The decrease during the quarter is due to significant gains in productivity that have been made in Toronto plant, and where transition and one-time costs have tapered off. On a year-to-date basis, wages and benefits increased to $50.7 million in 2017 from $48.9 million in 2016, and increased as a percentage of revenue to 41.2% in 2017 from 40.8% in 2016. The increase is due to one-time transition costs associated with the Toronto facility move, rising labour costs from incremental increases in the wage rate, significant overtime costs and one-time costs to support new business, strong volumes and temporary capacity constraints in certain of our markets, offset by improved labour efficiencies in the Regina plant and Vancouver plants.

Linen expenses in the third quarter increased to $4.6 million in 2017 compared to $4.3 million in 2016, and increased as a percentage of revenue to 10.6% in Q3, 2017 from 10.4% in Q3, 2016. On a year-to-date basis, linen expenses increased to $13.5 million in 2017 from $13.1 million in 2016, and slightly increased as a percentage of revenue from 10.9% to 11.0% in 2017. This is a result of increased healthcare volumes from new customers.

Utility costs in the third quarter remained relatively constant at $2.5 million compared to $2.6 million in

2016 and decreased as a percentage of revenue to 5.8% from 6.2% in 2016. On a year-to-date basis, utility costs increased to $7.6 million in 2017 from $7.3 million in 2016, and increased as a percentage of revenue to 6.2% in 2017 from 6.1% in 2016. The increase is primarily due to the transition to the new Toronto facility, the new carbon levy in Ontario and Alberta, offset by improved efficiencies in the new Toronto facility during the third quarter.

Delivery costs in the third quarter increased to $4.5 million and 10.3% as a percentage of revenues compared to $4.2 million and 10.2% in Q3, 2016. On a year-to-date basis, delivery costs increased to $12.8 million in 2017 from $11.9 million in 2016, and increased as a percentage of revenue to 10.4% in 2017 from 10.0% in 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 in the third quarter increased to $1.6 million and to 3.6% as a percentage of revenue, compared to $1.4 million and 3.5% in Q3, 2016 . On a year-to-date basis, occupancy costs increased to $4.7 million in 2017 from $4.0 million in 2016, and increased as a percentage of revenue to 3.8% in 2017 from 3.4% in 2016. This increase is a result of the new Toronto facility, increased warehousing costs in Toronto 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 $1.4 million and 3.2% as a percentage of revenue, compared to $1.3 million and 3.1% in Q3, 2016. On a year-to-date basis, materials and supplies increased to $4.1 million in 2017 from $3.5 million in 2016, and increased as a percentage of revenue to 3.3% in 2017 from 2.9% in 2016. The increase is primarily due to higher costs associated with the transition to the new Toronto facility, offset by a reduction from the prior year's transition costs of the new Regina facility and additional volume from the Vancouver lower mainland contract.

Repairs and maintenance costs increased $1.4 million and 3.1% as a percentage of revenues, compared to $1.2 million and 2.9% in Q3, 2016. On a year-to-date basis, repairs and maintenance costs increased to $4.0 million in 2017 from $3.6 million in 2016, and increased as a percentage of revenue to 3.2% in 2017 from 3.0% in 2016. The increase was primarily due to the timing of costs and increased volumes processed.

Corporate costs decreased to $1.7 million and 3.9% as a percentage of revenues compared to $1.8 million and 4.3% in Q3, 2016. This decrease is primarily related to the tapering of costs related to the transition of the new Toronto facility and timing of costs and initiatives to support the Corporation's growth and business strategies across the plants. On a year-to-date basis, corporate costs increased to $6.1 million in 2017 from $5.6 million in 2016, and increased as a percentage of revenue to 4.9% in 2017 from 4.7% in 2016. The increase is 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, and offset by the tapering of costs related to the transition of the new Toronto facility during Q3, 2017.

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 Q3, 2017 cash generated by operating activities was $3.8 million, compared to $7.6 million during Q3, 2016. On a year-to-date basis, cash generated by operating activities was $12.4 million in 2017 compared to $18.4 million in 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 Q3, 2017, cash used in financing activities was $2.9 million compared to cash generated by financing activities $0.7 million in Q3, 2016. On a year-to-date basis, cash generated by financing activities was $21.2 million in 2017 compared to $0.8 million in 2016. On a year-to-date basis, financing activities consisted of $55.0 million net proceeds from issuance of common shares, offset by net repayment to the revolving credit facility, and dividends paid to shareholders.

During Q3, 2017, cash used in investing activities was $5.2 million compared to $8.3 million in Q3, 2016. On a year-to-date basis, cash used in investing activities was $32.5 million in 2017 compared to $19.2 million in 2016. Investing activities related primarily to the purchase of plant equipment for the new Vancouver plant, cash settlement of plant equipment for the new Toronto 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
Operating lease commitments	$	54,820	1,355	11,728	9,581	32,156
Utility commitments	$	6,190	544	3,084	2,562	-
Linen purchase obligations	$	4,428	4,428	-	-	-
Property, plant and equipment commitments	$	28,340	25,875	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

(thousands, except percentages)	Nine months ended September 30, 2017		Year ended December 2016	
Long-term debt	$	-	$	25,800
Shareholders' equity		172,408		116,672
Total capitalization	$	172,408	$	142,472
Debt to total capitalization (see *Terminology* for definition)		0.0%		18.1%

For the quarter ended September 30, 2017, the Corporation had a debt to total capitalization of 0.0%, unused revolving credit facility of $83.4 million and has not incurred any events of default under the terms of its credit facility agreement. On April 25, 2017 the Corporation completed a bought deal offering with net proceeds of $55.0 million. Of these proceeds, $32.4 million were used to pay down debt existing at March 31, 2017.

As at September 30, 2017, the Corporation had net working capital of $20.8 million compared to its working capital position of $13.8 million at December 31, 2016. The increase in working capital is primarily attributable to net proceeds from issuance of common shares, timing differences related to 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 Amount per Share	2017 Total Amount (1)(2)(3)	2016 Amount per Share	2016 Total Amount (4)(5)(6)
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
April	May 15	9,541,480	$ 0.10000	$ 954	$ 0.10000	$ 799
May	June 15	9,583,902	0.10000	958	0.10000	802
June	July 14	9,583,902	0.10000	958	0.10000	802
Q2			$ 0.30000	$ 2,871	$ 0.30000	$ 2,403
July	August 15	9,583,902	$ 0.10000	$ 958	$ 0.10000	$ 802
August	September 15	9,583,902	0.10000	958	0.10000	802
September	October 13	9,583,902	0.10000	958	0.10000	802
Q3			$ 0.30000	$ 2,875	$ 0.30000	$ 2,407
YTD			$ 0.90000	$ 8,153	$ 0.90000	$ 7,206

(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 $954,148 for April 2017, $958,390 for May 2017, and $958,390 for June 2017. When rounded in thousands, $2,871 of dividends were paid for the quarterly period.

(4) 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.

(5) The total amount of dividends paid was $0.10000 per share for a total of $798,571 for April 2016, $802,348 for May 2016, and $802,348 for June 2016. When rounded in thousands, $2,403 of dividends were paid for the quarterly period.

For the three months ended September 30, 2017, the Corporation declared a $0.300 per share dividend compared to $0.758 per Share of Distributable Cash Flow (see *Terminology*). The payout ratio for the three months ended September 30, 2017 was 39.7%

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:

(thousands, except percentages and per share amounts)	2017			2016				2015
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Cash provided by operating activities	$ 3,788	$ 2,297	$ 6,300	$ 6,071	$ 7,581	$ 4,143	$ 6,726	$ 3,897
Deduct (add):								
Net changes in non-cash working capital items(1)	(3,917)	(4,161)	1,214	(336)	1,102	(2,625)	665	(1,387)
Share-based compensation	276	494	405	368	337	330	483	262
Maintenance capital expenditures(2)	192	427	179	264	289	1,270	293	420
Distributable cash flow	$ 7,237	$ 5,537	$ 4,502	$ 5,775	$ 5,853	$ 5,168	$ 5,285	$ 4,602
Dividends declared	2,875	2,871	2,407	2,407	2,407	2,403	2,396	2,396
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300
Payout ratio(3)	39.7%	51.8%	53.5%	41.7%	41.1%	46.5%	45.3%	52.1%
Weighted average shares outstanding during the period, basic	9,511	9,104	7,979	7,965	7,957	7,952	7,946	7,930
Weighted average shares outstanding during the period, diluted	9,548	9,133	7,999	8,004	7,991	7,965	7,965	7,948
Trailing-twelve months ("TTM")								
Distributable cash flow	23,051	21,667	21,298	22,081	20,908	21,426	21,731	21,355
Dividends	10,560	10,092	9,624	9,613	9,602	9,591	9,579	9,570
Payout ratio(3)	45.8%	46.6%	45.2%	43.5%	45.9%	44.8%	44.1%	44.8%

(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 September 30, and November 9, 2017, the Corporation had 9,583,902 common shares outstanding. Basic and diluted weighted average number of common shares outstanding for the three months ended September 30, 2017 were 9,510,725 and 9,547,538, respectively (7,957,428 and 7,990,865, 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 $1.7 million (2016 – $1.6 million) to be paid as shares issued from treasury. As at September 30, 2017, the value of the shares held in trust by the LTI trustee was $2.8 million (December 31, 2016 – $1.9 million) which was comprised of 73,178 in unvested common shares (December 31, 2016 – 39,716) with a nil aggregate cost (December 31, 2016 – $nil).

As at November 9, 2017 there were 9,583,902 common shares issued and outstanding including 73,178 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 month period ended September 30, 2017, the Corporation incurred fees totaling $34,500 compared to $34,500 for the same period of fiscal 2016. For the nine month period ended September 30, 2017, the Corporation incurred fees totaling $103,500 compared to $103,500 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 finance expense, 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(thousands)	**2017**	2016	**2017**	2016
Net earnings	**$ 3,418**	$ 3,414	**$ 7,005**	$ 9,330
Add:				
Income tax expense	**1,379**	1,387	**2,912**	3,829
Finance (recovery) expense	**101**	(11)	**347**	492
Depreciation of property, plant and equipment	**2,840**	2,320	**8,063**	6,797
Amortization of intangible assets	**373**	428	**1,205**	1,362
Loss on disposal of property, plant and equipment	**-**	-	**36**	19
EBITDA	**$ 8,111**	$ 7,538	**$ 19,568**	$ 21,829

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 September 30, 2017, the Corporation has not entered into any off balance sheet arrangements.

CHANGES IN ACCOUNTING POLICIES

The Corporation has prepared its September 30, 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 new standard introduces expanded disclosure requirements. These are expected to change the nature and extent of the Corporation's disclosures. The Corporation is in the process of evaluating the impact that IFRS 15 may have on the financial statements, and has not yet determined to what extent the new standard will affect EBITDA, net earnings and classification of cash flows. The Corporation is progressing on its assessment of the impact that the new standard will have on its consolidated financial statements, including the timing of revenue recognition under the new model and enhanced disclosure requirements. The Corporation is also in the process of assessing its policies and procedures to estimate variable consideration. 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.

- 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, including assessing the impact, if any, that the new expected credit-loss impairment model may have on accounts receivable and the new enhanced disclosure requirements.

- 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 Corporation is in the process of evaluating the impact that the amendment may have on the financial statements. The amendments are effective for periods beginning on or after January 1, 2018.

CRITICAL RISKS AND UNCERTAINTIES

As at September 30, 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 September 30, 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 September 30, 2017.

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, 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 »).