



K·BRO

Management's
Discussion &
Analysis
**Year Ended
December 31,
2016**

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 audited Consolidated Financial Statements of K-Bro Linen Inc. ("the Corporation") for the years ended December 31, 2016 and 2015, as well as the unaudited interim condensed Consolidated Financial Statements for the periods ended March 31, 2016, June 30, 2016 and September 30, 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 March 24, 2017.

In the interest of providing current Shareholders of K-Bro Linen Inc. and potential investors with information regarding current results and future prospects, our public communications often include written or verbal forward-looking statements. Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions and courses of action, and include future-oriented financial information.

This MD&A contains forward-looking information that represents internal expectations, estimates or beliefs concerning, among other things, future activities or future operating results and various components thereof. The use of any of the words "anticipate", "continue", "expect", "may", "will", "project", "should", "believe", and similar expressions suggesting future outcomes or events are intended to identify forward-looking information. Statements regarding such forward-looking information reflect management's current beliefs and are based on information currently available to management.

These statements are not guarantees of future performance and are based on management's estimates and assumptions that are subject to risks and uncertainties, which could cause K-Bro's actual performance and financial results in future periods to differ materially from the forward-looking information contained in this MD&A. These risks and uncertainties include, among other things: (i) risks associated with acquisitions, including the possibility of undisclosed material liabilities; (ii) K-Bro's competitive environment; (iii) utility and labour costs; (iv) K-Bro's dependence on long-term contracts with the associated renewal risk; (v) increased capital expenditure requirements; (vi) reliance on key personnel; (vii) changing trends in government outsourcing; and (viii) the availability of future financing. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information include: (i) volumes and pricing assumptions; (ii) expected impact of labour cost initiatives; and (iii) the level of capital expenditures. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements regarding forward-looking information included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A. Forward looking information included in this MD&A includes the expected annual healthcare revenues to be generated from the Company's contracts with the William Osler Health System and Trillium Health Partners as well as the anticipated capital costs for the new Vancouver facility, 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 | 3 | Liquidity and Capital Resources | 12 | Terminology | 18 |
| Strategy | 4 | Dividends | 14 | Recent Accounting Pronouncements | 19 |
| 4 th Quarter Overview | 5 | Distributable Cash Flow | 15 | Financial Instruments | 20 |
| Selected Annual Financial Info | 5 | Outstanding Shares | 15 | Critical Risks and Uncertainties | 20 |
| Summary of Results and Key Events | 5 | Related Party Transaction | 16 | Controls and Procedures | 21 |
| Key Performance Drivers | 9 | Critical Accounting Estimates | 16 | | |
| Results of Operations | 10 | Terminology | 18 | | |

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.

Industry Characteristics and Trends

Management believes that the industry in which K-Bro operates exhibits the following characteristics and trends:

Stable Industry with Moderate Cyclicalities – As evidenced by the stability in the number of approved hospital beds in the healthcare system and hotel rooms in the hospitality industry. The potential for step-changes in volumes and revenues that align with contractual arrangements exists within this industry. Service relationships are generally formalized through contracts in the healthcare sector that are typically long term (from seven to ten years), while contracts in the hospitality sector usually range from two to five years.

Outsourcing and Privatization – Healthcare institutions and regional authorities are facing funding pressures and must continually evaluate the allocation of scarce resources. Consequently there are often advantages to healthcare institutions in outsourcing the processing of healthcare linen to private sector laundry companies such as K-Bro because of the economies of scale and significant management expertise that can be provided on a more comprehensive and cost-effective basis than customers can achieve in operating their own laundry facilities.

Fragmentation – Most Canadian cities have at least one and sometimes several private sector competitors operating in the healthcare and hospitality sectors of the laundry and linen services industry. Management believes that the presence of these operators provides consolidation opportunities for larger industry participants with the financial means to complete acquisitions.

Customers and Product Mix

K-Bro's customers include some of the largest healthcare institutions and hospitality providers in Canada. Healthcare customers include acute care hospitals and long-term care facilities. Most of K-Bro's hospitality customers (typically >250 rooms) generate between 500,000 and 3 million pounds of linen per year. Most healthcare customers generate between 500,000 pounds of linen per year for a hospital and up to 41 million pounds of linen per year for a healthcare region.

STRATEGY

K-Bro maintains the following three-part strategic focus:

Secure and Maintain Long-Term Contracts with Large Healthcare and Hospitality Customers – K-Bro's core service is providing high quality laundry and linen services at competitive prices to large healthcare and hospitality customers under long-term contracts. K-Bro's contracts in the healthcare sector typically range from seven to ten years in length. Contracts in the hospitality sector typically range from two to five years.

Extend Core Services To New Markets – Management has demonstrated its ability to successfully expand K-Bro's business into new markets from its established bases. Since 2005, K-Bro has entered four new geographic markets across Canada. These new markets have contributed significantly to K-Bro's growth. Management believes that new outsourcing opportunities will continue to arise in the near to medium-term and that K-Bro is well-positioned for continued growth, particularly as healthcare and hospitality institutions continue to increase their focus on core services and confront pressures for capital and cost savings.

Management may in the future expand its core services to new markets either through acquisitions or by establishing new facilities. Its choice of areas for expansion will depend on the availability of suitable acquisition candidates, the volume of healthcare and hospitality linen to be processed and the policies of applicable governments.

Introduce Related Services – In addition to focusing on its core services, the Corporation also attempts to capitalize on attractive business opportunities by introducing closely-related services that enable it to provide more complete solutions to K-Bro's healthcare and hospitality customers. These related service offerings include K-Bro Operating Room (“KOR”) services and on-site services. For three major hospitals in Toronto, K-Bro performs the sterilization of operating room linen packs.

FOURTH QUARTER OVERVIEW

In the fourth quarter of 2016, revenue increased by 4.2% to \$39.3 million from \$37.7 million in the comparative period. This increase was due to additional volume from the 3sHealth region associated with the commissioning of the new facility in Regina, additional awarded healthcare volume from the recently signed Vancouver lower mainland contract, organic growth at existing customers, and new customers secured in existing markets. These gains were partially offset by price concessions in Vancouver as a result of contractual terms related to the new ten year contract.

EBITDA was \$6.4 million for the three months ended December 31, 2016, compared to \$6.2 million in the comparative period of 2015. EBITDA margins have been impacted by one-time and transition costs associated with the relocation of our new Toronto facility and one-time and transition costs needed to support new business and resulting temporary capacity constraints in Toronto and Vancouver. Management estimates these one-time and transition costs in the quarter to be approximately \$0.5 million and expects margins to return to 2015 historical levels after the completion of and transition into our new facilities in Toronto in 2017 and Vancouver in 2018.

SELECTED ANNUAL FINANCIAL INFORMATION

| <i>(thousands, except share and per share amounts)</i> | 2016 | 2015 | 2014 |
|--|------------|------------|------------|
| Revenue | \$ 159,089 | \$ 144,537 | \$ 136,440 |
| Earnings before income taxes | 16,367 | 17,261 | 16,663 |
| Net earnings | 11,527 | 12,068 | 12,198 |
| <i>Net earnings per share:</i> | | | |
| Basic | \$ 1.45 | \$ 1.52 | \$ 1.72 |
| Diluted | \$ 1.44 | \$ 1.52 | \$ 1.72 |
| Total assets | 168,289 | 143,023 | 132,638 |
| Long-term debt | 25,800 | 2,349 | - |
| Dividends declared to Shareholders | 9,613 | 9,570 | 8,498 |
| Dividends declared to Shareholders per share | \$ 1.200 | \$ 1.200 | \$ 1.183 |
| <i>Weighted average number of shares outstanding:</i> | | | |
| Basic | 7,955,026 | 7,920,609 | 7,090,937 |
| Diluted | 7,986,729 | 7,930,492 | 7,111,232 |

SUMMARY OF 2016 RESULTS, KEY EVENTS AND OUTLOOK

Financial Growth

K-Bro delivered strong financial results in 2016 driven by the operating results from all nine of its processing plants and two distribution centers. Net earnings were \$11.5 million or \$1.45 per share (basic). Cash flow from operating activities was \$24.5 million and distributable cash flow was \$22.1 million. Revenue increased in fiscal 2016 to \$159.1 million or by 10.1% compared to 2015. This increase was due to additional volume from the 3sHealth region associated with the commissioning of the new facility in Regina, additional awarded healthcare volume from the recently signed Vancouver lower mainland contract, organic growth at existing customers, and new customers secured in existing markets. These gains were partially offset by price concessions in Vancouver as a result of contractual terms related to the new ten year contract.

EBITDA (see Terminology) increased in the year to \$28.2 million from \$27.1million in 2015, which is an increase of 4.0%. The EBITDA margin decreased from 18.8% in 2015 compared to 17.7% in 2016. The change in EBITDA and margin was predominantly impacted by one-time and transition costs associated with the relocation of our new Toronto facility and one-time and transition costs needed to support new business and resulting temporary capacity constraints in Toronto and Vancouver. Management estimates these one-time and transition costs incurred primarily in Q3 and Q4 to be approximately \$0.9 million.

Near-Term and Long-Term Growth and Margin Impact

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

These investments are being made because management believes that new opportunities, both current and future, justify the significant additional capacity. Since the third quarter we have been awarded two new healthcare accounts in Toronto (William Osler Health System and Trillium Health Partners), representing total revenue of \$7.6 million annually and management believes that it has many additional new customer opportunities going forward. Furthermore, in the past year in Vancouver we have re-signed most of our current healthcare volume through to 2027 and been awarded six new healthcare accounts representing an additional \$5.2 million in revenue with additional new customer opportunities going forward.

The construction and/or upgrade of three large facilities enable us to bid on significant amount of additional business, but also will create margin pressure through 2017 and 2018 as the company incurs one-time and transition costs associated with these large investments. Those one-time and transition costs were approximately \$0.9mm for the second half of 2016. While the margin pressure may vary by quarter through 2017 and 2018, management believes that the one-time and transition costs incurred in 2017 and 2018 will position the company to achieve more growth and a lower cost structure into the future and that the company will return to normalized margins closer to those achieved in 2015 as it enters 2019.

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

Vancouver Facility Development

As announced on March 2, 2016, K-Bro has commenced the planning and development of a new state-of-the-art facility with a projected investment of up to \$50 with the potential for an additional \$5 million due to exposure from the U.S. dollar and construction costs that have not been fully tendered. The new Vancouver plant will be located in Burnaby, and the Corporation expects to transition to the new facility during the third quarter of 2018. The new facility will enable K-Bro to expand current capacity, to accommodate the additional awarded volume, and to provide the opportunity to consolidate the healthcare volume from its existing two Vancouver-area facilities. In addition to investing in the new facility, K-Bro will upgrade and replace equipment at one of its existing

Vancouver-area facilities, which will be used to process the consolidated hospitality volume. K-Bro will not be renewing the lease for the remaining Vancouver-area facility and related assets will be transferred to the other K-Bro facilities. K-Bro believes it will achieve significant operating efficiencies at its new plant. K-Bro plans to finance the entire amount from its existing \$85 million credit facility. However, management intends to continually assess its opportunities to maintain a conservative amount of leverage and balance sheet flexibility in the short and long-term basis in order to ensure that sufficient capital is available for future growth needs. It is anticipated that transition costs associated with the new Vancouver plant will negatively impact EBITDA margins over the third and fourth quarters of 2018 while the plant becomes operational.

Toronto Facility Development

As announced on February 3, 2016, K-Bro is in the process of relocating to a new state-of-the-art facility in Toronto. The new Toronto plant is located in Mississauga, and the Corporation expects to complete its transition to the new facility during the first quarter of 2017. Management estimates that the costs to commission a new leased facility are \$37 million for new efficiency enhancing equipment, and leaseholds. As at December 31, 2016, K-Bro has incurred \$24.9 million of the total expected capital cost. K-Bro's strategy includes significant growth in its healthcare and hospitality volumes, and the additional capacity and the long-term lease enables K-Bro to grow into the additional capacity as opportunities emerge. K-Bro plans to finance the entire amount from its existing \$85 million credit facility. However, management intends to continually assess its opportunities to maintain a conservative amount of leverage and balance sheet flexibility in the short and long-term basis in order to ensure that sufficient capital is available for future growth needs. It is anticipated that transition costs associated with the new Toronto plant will negatively impact EBITDA margins over several quarters as the plant becomes operational. Management anticipates that transition costs will impact the first three quarters of 2017 with margins returning to historical levels during the fourth quarter of 2017.

Toronto Contract Awards

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

On March 24, 2017 the Corporation was awarded a contract to provide laundry and linen services to Trillium Health Partners. The new contract is for 7 years with renewal options for an additional 8 years, and is a result of a competitive RFP process. Expected additional annual revenue from the contract is \$4 million.

Toronto Collective Bargaining Agreement

The Teamsters represent 14 drivers in our Toronto facility. The Collective Bargaining Agreement representing these employees expired on December 31, 2016. The members of the bargaining unit rejected the company's contract proposal and on January 31, 2017 the Corporation locked out the 14 Toronto drivers and employed replacement drivers to service its Toronto accounts. The Corporation is presently in negotiations with the Teamsters to reach a new collective bargaining agreement. There have been no service interruptions to any customers as a result of the lock-out. Management anticipates one-time and transition costs associated with this lock-out in the amount of \$0.4 million to be incurred in the first quarter of 2017.

OUTLOOK

“We are pleased with the solid growth during 2016, driven by additional volume from the Vancouver lower mainland, 3sHealth contracts and customers secured in existing markets.” said Linda McCurdy, President & Chief Executive Officer. “We look forward to 2017, especially in light of securing two new Toronto healthcare contracts starting in 2017, and the renewal of an existing Toronto healthcare contract. In terms of our previously announced plant builds, we have nearly completed the successful transition of the volume to our newly constructed state-of-the-art Toronto facility and are confident that we will secure additional business to fill capacity. We continue to make progress in the planning and design of our new Vancouver facility with a targeted completion date of 2018. We view 2017 and 2018 as transition years that will impact our margins but once complete will enable us to realize additional efficiencies, increase capacity and increase market share. While the margin pressure may vary by quarter through 2017 and 2018, we believe that the one-time and transition costs incurred in 2017 and 2018 will position the company to achieve more growth and a lower cost structure into the future and that the company will return to normalized margins closer to those achieved in 2015 as it enters 2019. We remain excited about our growth plans and are confident in our ability to continue to provide value to our customers and our shareholders.”

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.

Revolving Credit Facility

On September 26, 2016, K-Bro renewed the credit facility through to July 31, 2020 with substantially the same terms. As a part of this renewal, the credit facility was increased to \$85.0 million. Management intends to continually assess its opportunities to maintain a conservative amount of leverage and balance sheet flexibility in the short and long-term basis in order to ensure that sufficient capital is available for future growth needs.

Effects of Economic Uncertainty

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

- Approximately 72.3% of its revenues in the quarter were from large publicly funded healthcare customers which are geographically diversified across multiple provinces;
- At December 31, 2016, K-Bro had unutilized borrowing capacity of \$57.6 million or 67.7% 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.

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 | Q4 2016 | Q4 2015 | YTD 2016 | YTD 2015 |
|------------------|---|-----------|-----------|-----------|-----------|
| Growth | EBITDA ⁽¹⁾ | 3.8% | -2.5% | 4.0% | 3.4% |
| | Revenue | 4.2% | 11.5% | 10.1% | 5.9% |
| | Distributable cash flow | 25.5% | -6.2% | 3.4% | 5.6% |
| Profitability | EBITDA ⁽¹⁾ | \$ 6,407 | \$ 6,173 | \$ 28,236 | \$ 27,140 |
| | EBITDA margin | 16.3% | 16.4% | 17.7% | 18.8% |
| | Net earnings | \$ 2,197 | \$ 2,158 | \$ 11,527 | \$ 12,068 |
| Stability | Debt to total capitalization ⁽²⁾ | 18.1% | 2.0% | 18.1% | 2.0% |
| | Unutilized line of credit | \$ 57,550 | \$ 46,001 | \$ 57,550 | \$ 46,001 |
| | Payout ratio | 41.7% | 52.1% | 43.5% | 44.8% |
| | Dividends declared per share | \$ 0.300 | \$ 0.300 | \$ 1.200 | \$ 1.200 |
| Cost containment | Wages and benefits | 45.6% | 46.0% | 45.4% | 45.1% |
| | Utilities | 6.4% | 6.3% | 6.1% | 6.1% |
| | Expenses included in EBITDA | 83.7% | 83.6% | 82.3% | 81.2% |

⁽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*.

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:

| | 2016 | | | | 2015 | | | |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Healthcare revenue | 28,374 | 27,333 | 27,553 | 28,124 | 27,100 | 23,978 | 24,005 | 23,857 |
| Hospitality revenue | 10,877 | 14,224 | 11,916 | 10,688 | 10,580 | 13,722 | 11,332 | 9,963 |
| Total revenue | 39,251 | 41,557 | 39,469 | 38,812 | 37,680 | 37,700 | 35,337 | 33,820 |
| Expenses included in EBITDA | 32,844 | 34,019 | 31,954 | 32,036 | 31,507 | 30,123 | 28,251 | 27,516 |
| EBITDA ⁽¹⁾ | 6,407 | 7,538 | 7,515 | 6,776 | 6,173 | 7,577 | 7,086 | 6,304 |
| EBITDA as a % of revenue (EBITDA margin) | 16.3% | 18.1% | 19.0% | 17.5% | 16.4% | 20.1% | 20.1% | 18.6% |
| Depreciation and amortization | 2,866 | 2,748 | 2,674 | 2,737 | 2,859 | 2,326 | 2,219 | 2,178 |
| Finance expense (recovery) | 247 | (11) | 110 | 393 | 156 | (128) | 177 | (98) |
| Loss on disposal of equipment | 86 | - | 19 | - | 172 | 4 | 14 | - |
| Earnings before income taxes | 3,208 | 4,801 | 4,712 | 3,646 | 2,986 | 5,375 | 4,676 | 4,224 |
| Income tax expense | 1,011 | 1,387 | 1,328 | 1,114 | 828 | 1,523 | 1,637 | 1,205 |
| Net earnings | 2,197 | 3,414 | 3,384 | 2,532 | 2,158 | 3,852 | 3,039 | 3,019 |
| Net earnings as a % of revenue | 5.6% | 8.2% | 8.6% | 6.5% | 5.7% | 10.2% | 8.6% | 8.9% |
| Basic earnings per share | 0.276 | 0.429 | 0.426 | 0.319 | 0.272 | 0.486 | 0.384 | 0.381 |
| Diluted earnings per share | 0.274 | 0.427 | 0.425 | 0.318 | 0.271 | 0.483 | 0.382 | 0.380 |
| Total assets | 168,289 | 153,923 | 148,068 | 146,816 | 143,023 | 145,106 | 135,516 | 133,229 |
| Total long-term financial liabilities | 33,949 | 17,596 | 14,360 | 12,717 | 8,958 | 6,776 | 6,361 | 5,892 |
| Funds provided by operations | 6,071 | 7,581 | 4,143 | 6,726 | 3,897 | 5,733 | 3,773 | 4,214 |
| Long-term debt | 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.

Historically, the Corporation's financial and operating results are stronger in the second and third quarters as a result of seasonality and the associated higher hospitality volumes. Other fluctuations in net income from quarter-to-quarter can also be attributed to hiring and labour cost trends, timing of linen purchases, utility costs, timing of repairs and maintenance expenditures, business development, capital spending patterns and changes in corporate tax rates and income tax expenses.

For the year ended December 31, 2016, the Corporation's distributable cash flow was \$22.1 million with a debt to total capitalization of 18.1%. Due to the strategic plans K-Bro expects to execute in the coming fiscal year, management expects the debt to total capitalization to increase, mainly as a result of strategic capital expenditures as part of the investment in the new Vancouver facility and remaining commitments related to the new Toronto facility. Management believes the unutilized balance of \$57.6 million is sufficient for the company's operations in the foreseeable future. However, management intends to continually assess its opportunities to maintain a conservative amount of leverage and balance sheet flexibility in the short and long-term basis in order to ensure that sufficient capital is available for future growth needs.

Revenue, Earnings and EBITDA

For the year ended December 31, 2016, K-Bro's revenue increased by 10.1% to \$159.1 million from \$144.5 million in the comparative period. This increase was due to additional volume from the 3sHealth region associated with the commissioning of the new facility in Regina, additional awarded healthcare volume from the recently signed Vancouver lower mainland contract, organic growth at existing customers, and new customers secured in existing markets, offset by price concessions in Vancouver as a result of

contractual terms related to a new ten year contract. In 2016, approximately 70.0% of K-Bro's revenue was generated from healthcare institutions which is slightly higher compared to 68.5% in 2015, mainly due to volume from the 3sHealth region and additional Vancouver lower mainland volume.

EBITDA increased in the year to \$28.2 million from \$27.1million in 2015, which is an increase of 4.0%. The EBITDA margin decreased from 18.8% in 2015 compared to 17.7% in 2016. The change in EBITDA and margin was predominantly impacted by one-time and transition costs associated with the relocation of our new Toronto facility and one-time and transition costs needed to support new business and resulting temporary capacity constraints in Toronto and Vancouver. Management estimates these one-time and transition costs incurred primarily in Q3 and Q4 to be approximately \$0.9 million.

Net earnings decreased by \$0.6 million or from \$12.1 million in 2015 to \$11.5 million in 2016. Net earnings as a percentage of revenue decreased by 1.1% to 7.2% in 2016 from 8.3% in 2015. 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 and interest expense, offset by a lower income tax expense.

Operating Expenses

Wages and benefits increased to \$72.2 million in 2016 from \$65.2 million in 2015, and increased as a percentage of revenue from 45.1% in 2015 to 45.4% in the same period of 2016. The increase in the period is due to the incremental labour required to process the increased volumes, significant overtime costs and one-time costs to support new business, strong volumes and temporary capacity constraints in certain of our markets as well as one-time transition costs associated with the Toronto facility move and rising labour costs from incremental increases in the wage rate.

Linen expenses increased to \$17.5 million in 2016 from \$15.0 million in 2015, and increased as a percentage of revenue to 11.0% from 10.4% in 2015. The increase in costs is primarily due to the additional linen required for the 3sHealth volume and linen required for the additional volume awarded as part of the Vancouver lower mainland contract.

Utility costs increased to \$9.8 million compared to \$8.8 million in 2015 and remained constant as a percentage of revenue at 6.1%, with higher costs associated with the new Regina facility and the increased volumes in certain markets.

Delivery costs increased to \$8.8 million and to 5.5% as a percentage of revenues compared to \$7.0 million and 4.8% in 2015. The increase is a result of increased business activity, geographical dispersity of the Corporation's new customer base in Saskatchewan and transition costs associated with the additional volume from the Vancouver lower mainland contract.

Occupancy costs increased to \$5.3 million and to 3.3% as a percentage of revenue, compared to \$5.2 million and 3.6% in 2015. This increase is a result of a new distribution facility, additional costs associated with the commissioning of the new Regina facility, 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 \$4.8 million and to 3.0% as a percentage of revenue, compared to \$4.2 million and 2.9% in 2015, due to higher costs associated with the new Regina facility and to support the increased volumes in certain markets.

Repairs and maintenance increased to \$4.9 million and to 3.1% as a percentage of revenues, compared to \$4.6 million and 3.2% in 2015, primarily related to the timing of scheduled maintenance activities.

Corporate costs increased to \$7.5 million and to 4.7% as a percentage of revenues compared to \$7.4 million and 5.1% in 2015, primarily due to the timing of costs and initiatives to support the Corporation's growth and business strategies across the plants.

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

LIQUIDITY AND CAPITAL RESOURCES

In 2016 cash generated by operating activities was \$24.5 million, compared to \$17.6 million during 2015. 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 2016, cash generated by financing activities was \$13.8 million compared to cash used in financing activities \$7.2 million in 2015. Financing activities in 2016 consisted of net proceeds from the revolving credit facility, offset by dividends paid to Shareholders.

During 2016, cash used in investing activities was \$38.4 million compared to \$24.1 million in 2015. Investing activities during the year related primarily to the cash settlement of plant equipment for the new Regina plant, leasehold improvements and purchase of plant equipment for the new Toronto and Vancouver plant, and the purchase of equipment in existing plants to facilitate strategic growth.

Contractual Obligations

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

| (thousands) | Payments due by Period | | | | |
|---|------------------------|----------|-------------|-------------|-----------|
| | Total | < 1 Year | 1 - 3 Years | 4 - 5 Years | > 5 Years |
| Long-term debt | \$ 25,800 | - | 25,800 | - | - |
| Operating lease commitments | \$ 55,407 | 5,236 | 10,259 | 8,751 | 31,161 |
| Utility commitments | \$ 7,721 | 2,078 | 3,081 | 2,562 | - |
| Linen purchase obligations | \$ 6,926 | 6,926 | - | - | - |
| Property, plant and equipment commitments | \$ 37,525 | 28,897 | 8,628 | - | - |

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> | 2016 | 2015 |
|--|------------|------------|
| Long-term debt | \$ 25,800 | \$ 2,349 |
| Shareholders' equity | 116,672 | 113,240 |
| Total capitalization | \$ 142,472 | \$ 115,589 |
| Debt to total capitalization (see <i>Terminology</i> for definition) | 18.1% | 2.0% |

For the year ended December 31, 2016, the Corporation had a debt to total capitalization of 18.1%, unused revolving credit facility of \$57.6 million and has not incurred any events of default under the terms of its credit facility agreement.

As at December 31, 2016, the Corporation had net working capital of \$13.8 million compared to its working capital position of \$8.7 million at December 31, 2015. The increase in working capital is primarily attributable to timing differences related in the cash settlement of new plant equipment, and deposits related to the acquisition of equipment related across the plants.

Management believes that K-Bro has the capital resources and liquidity necessary to meet its commitments, support its operations and finance its growth strategies. In addition to K-Bro's ability to generate cash from operations and its revolving credit facility, K-Bro believes it is also able to issue additional shares or increase its borrowing capacity, if necessary, to provide for capital spending and sustain its property, plant and equipment.

DIVIDENDS

| Fiscal Period | Payment Date | # of Shares outstanding | 2016 | | 2015 | |
|---------------|--------------|-------------------------|------------------|---------------------------|------------------|---------------------------|
| | | | Amount per Share | Total Amount (1)(2)(3) | Amount per Share | Total Amount (4)(5)(6) |
| January | February 12 | 7,985,713 | \$ 0.10000 | \$ 799 | \$ 0.10000 | \$ 796 |
| February | March 15 | 7,985,713 | 0.10000 | 799 | 0.10000 | 796 |
| March | April 15 | 7,985,713 | 0.10000 | 799 | 0.10000 | 796 |
| Q1 | | | \$ 0.30000 | \$ 2,396 | \$ 0.30000 | \$ 2,388 |
| April | May 13 | 7,985,713 | \$ 0.10000 | \$ 799 | \$ 0.10000 | \$ 796 |
| May | June 15 | 8,023,480 | 0.10000 | 802 | 0.10000 | 796 |
| June | July 15 | 8,023,480 | 0.10000 | 802 | 0.10000 | 799 |
| Q2 | | | \$ 0.30000 | \$ 2,403 | \$ 0.30000 | \$ 2,391 |
| July | August 15 | 8,023,480 | \$ 0.10000 | \$ 802 | \$ 0.10000 | \$ 799 |
| August | September 15 | 8,023,480 | 0.10000 | 802 | 0.10000 | 799 |
| September | October 14 | 8,023,480 | 0.10000 | 802 | 0.10000 | 799 |
| Q3 | | | \$ 0.30000 | \$ 2,407 | \$ 0.30000 | \$ 2,396 |
| October | November 15 | 8,023,480 | \$ 0.10000 | \$ 802 | \$ 0.10000 | \$ 799 |
| November | December 15 | 8,023,480 | 0.10000 | 802 | 0.10000 | 799 |
| December | January 13 | 8,023,480 | 0.10000 | 802 | 0.10000 | 799 |
| Q4 | | | \$ 0.30000 | \$ 2,407 | \$ 0.30000 | \$ 2,396 |
| YTD | | | \$ 1.20000 | \$ 9,613 | \$ 1.20000 | \$ 9,570 |

(1) 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.

(2) 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.

(3) The total amount of dividends paid was \$0.10000 per share for a total of \$802,348 per month for July - December 2016; when rounded in thousands, \$2,407 of dividends were paid in Q3 and Q4.

(4) The total amount of dividends paid was \$0.10000 per share for a total of \$795,974 per month for January - March 2015; when rounded in thousands, \$2,388 of dividends were paid for the quarterly period.

(5) The total amount of dividends paid was \$0.10000 per share for a total of \$795,974 for April 2015, \$795,974 for May 2015, and \$798,571 for June 2015. When rounded in thousands, \$2,391 of dividends were paid for the quarterly period.

(6) The total amount of dividends paid was \$0.10000 per share for a total of \$798,571 per month for July - December 2015; when rounded in thousands, \$2,396 of dividends were paid in Q3 and Q4.

For the three months ended December 31, 2016, the Corporation declared a \$0.300 per share dividend compared to \$0.722 per Share of Distributable Cash Flow (see *Terminology*). The payout ratio for the three months ended December 31, 2016 was 41.7%

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:

| <i>(thousands, except per share amounts and percentages)</i> | 2016 | | | | 2015 | | | |
|--|----------|----------|----------|----------|----------|----------|----------|----------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Cash provided by operating activities | \$ 6,071 | \$ 7,581 | \$ 4,143 | \$ 6,726 | \$ 3,897 | \$ 5,733 | \$ 3,773 | \$ 4,214 |
| <i>Deduct (add):</i> | | | | | | | | |
| Net changes in non-cash working capital items ⁽¹⁾ | (336) | 1,102 | (2,625) | 665 | (1,387) | (1,193) | (2,302) | (1,439) |
| Share-based compensation | 368 | 337 | 330 | 483 | 262 | 329 | 334 | 379 |
| Maintenance capital expenditures ⁽²⁾ | 264 | 289 | 1,270 | 293 | 420 | 226 | 268 | 365 |
| Distributable cash flow | \$ 5,775 | \$ 5,853 | \$ 5,168 | \$ 5,285 | \$ 4,602 | \$ 6,371 | \$ 5,473 | \$ 4,909 |
| Dividends declared | 2,407 | 2,407 | 2,403 | 2,396 | 2,396 | 2,396 | 2,391 | 2,388 |
| Dividends declared per share | 0.300 | 0.300 | 0.300 | 0.300 | 0.300 | 0.300 | 0.300 | 0.300 |
| Payout ratio ⁽³⁾ | 41.7% | 41.1% | 46.5% | 45.3% | 52.1% | 37.6% | 43.7% | 48.6% |
| Weighted average shares outstanding during the period, basic | 7,965 | 7,957 | 7,952 | 7,946 | 7,930 | 7,922 | 7,916 | 7,914 |
| Weighted average shares outstanding during the period, diluted | 8,004 | 7,991 | 7,965 | 7,965 | 7,948 | 7,974 | 7,966 | 7,942 |
| Trailing-twelve months ("TTM") | | | | | | | | |
| Distributable cash flow | 22,081 | 20,908 | 21,426 | 21,731 | 21,355 | 21,661 | 21,086 | 20,721 |
| Dividends | 9,613 | 9,602 | 9,591 | 9,579 | 9,570 | 9,394 | 9,136 | 8,847 |
| Payout ratio ⁽³⁾ | 43.5% | 45.9% | 44.8% | 44.1% | 44.8% | 43.4% | 43.3% | 42.7% |

(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 December 31, 2016, the Corporation had 8,023,480 common shares outstanding. Basic and diluted weighted average number of common shares outstanding for 2016 were 7,955,026 and 7,986,729, respectively, (7,920,609 and 7,930,492, respectively, for the comparative 2015 periods).

In accordance with the LTI plan and in conjunction with the performance of the Corporation in the 2015 fiscal year, on April 18, 2016 the Compensation, Nominating and Corporate Governance Committee of the Board of Directors approved LTI compensation of \$1.6 million (2015 – \$1.4 million) to be paid as shares issued from treasury. As at December 31, 2016, the value of the shares held in trust by the LTI trustee was \$1.9 million (December 31, 2015 – \$2.0 million) which was comprised of 44,634 in unvested common shares (December 31, 2015 – 39,716) with a nil aggregate cost (December 31, 2015 – \$nil).

As at March 24, 2017 there were 8,023,480 common shares issued and outstanding including 44,634 shares issued but held as unvested treasury shares.

RELATED PARTY TRANSACTIONS

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by Mr. Matthew Hills, a director of the Corporation. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms. For the year ended December 31, 2016, the Corporation incurred fees totaling \$138,000 (2015 – \$138,000).

CRITICAL ACCOUNTING ESTIMATES

The Corporation's summary of significant accounting policies are contained in note 2 to the audited consolidated financial statements.

The Corporation's financial statements include estimates and assumptions made by management in respect of operating results, financial conditions, contingencies, commitments, and related disclosures. Actual results may vary from these estimates. The following are, in the opinion of management, the Corporation's most critical accounting estimates, being those that involve the most difficult, subjective and complex judgments, and/or requiring estimates that are inherently uncertain and which may change in subsequent reporting periods.

K-Bro has continuously refined and documented its management and internal reporting systems to ensure that accurate, timely, internal and external information is gathered and disseminated. Management also regularly evaluates these estimates and assumptions which are based on past experience and other factors that are deemed reasonable under the circumstances.

K-Bro has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Furthermore, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates.

K-Bro's leadership team's mandate includes ongoing development of procedures, standards and systems to allow K-Bro staff to make the best decisions possible and ensuring those decisions are in compliance with the Corporation's policies.

Preparation of the Corporation's consolidated financial statements requires management to make estimates and assumptions that affect:

- volume rebates;
- linen in service;
- intangible assets;
- goodwill;
- income taxes;
- provisions; and,
- allowance for doubtful accounts.

The following discusses the most significant accounting judgments and estimates in the Corporation's consolidated financial statements.

Volume Rebates

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

Linen in Service

Linen in service is recorded at cost. Operating room linen is amortized on a straight-line method over an estimated service life of 24 months. General linen is amortized based on usage which results in an estimated service life of the linen equal to 24 months. Based on past experience, management believes that a service life of 24 months is representative of the average service life of linen and would not expect a material deviation to the balance of linen in service or linen expense.

Intangible Assets

The Corporation accounts for intangible assets and goodwill in accordance with IFRS 3, Business Combinations and IAS 38, Intangible Assets. In a business combination, K-Bro may acquire the assets and assume certain liabilities of an acquired entity. The allocation of the purchase price for these transactions involves judgment in determining the fair values assigned to the tangible and intangible assets acquired and the liabilities assumed on the acquisition. The determination of these fair values involves a variety of assumptions, including revenue growth rates, expected operating income, discount rates, and earnings multiples. If K-Bro's estimates or assumptions change prior to finalizing the purchase price allocation for a transaction, a revision to the purchase price allocation or the carrying value of the related assets and liabilities acquired may impact our net income in future periods.

At the date of the acquisition, K-Bro must estimate the value of acquired intangible assets that do not have a well-defined market value, such as the value of customer lists and relationships and non-competition agreements.

Valuing these assets involves estimates of the future net benefit to K-Bro and the useful life of such benefits and is based upon various internal and external factors. A change in those estimates could cause a material change to the value of the intangible assets.

Although intangible assets are amortized over their useful life, if the estimated value of an intangible asset has declined below its amortized book value, a write-down would be recorded in the period in which the event causing the decline in value occurred, which would increase amortization expense and decrease the intangible assets balance.

The Corporation reviews goodwill at least annually and other non-financial assets when there is any indication that the asset might be impaired. The Corporation applies judgment in assessing the likelihood of renewal of significant contracts included in the intangible assets. The Corporation has estimated the fair value of CGUs to which goodwill is allocated based on value in use using discounted cash flow models that required assumptions about future cash flows, margins, and discount rates. At this time, K-Bro does not believe any intangible assets have a book value in excess of their fair market value.

TERMINOLOGY

EBITDA

We report on our EBITDA (Earnings before interest, taxes, depreciation and amortization) because it is a key measure used by management to evaluate performance. EBITDA is utilized in measuring compliance with debt covenants and in making decisions relating to dividends to Shareholders. We believe EBITDA assists investors in assessing our performance on a consistent basis as it is an indication of our capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible and intangible capital assets, which vary according to their vintage, technological currency and management's estimate of their useful life. Accordingly, EBITDA comprises revenues less operating costs before: financing costs, capital asset and intangible asset amortization, gain/loss on disposal and impairment charges, and income taxes.

EBITDA is a sub-total presented within the statement of earnings in accordance with the amendments made to IAS 1 which became effective January 1, 2016. EBITDA is not considered an alternative to net earnings in measuring K-Bro's performance. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, capital expenditures, debt changes and other sources and uses of cash, which are disclosed in the consolidated statements of cash flows.

| (thousands) | Three Months Ended December 31, | | Years Ended December 31, | |
|---|------------------------------------|-----------------|-----------------------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Net earnings | \$ 2,197 | \$ 2,158 | \$ 11,527 | \$ 12,068 |
| Add: | | | | |
| Income tax expense | 1,011 | 828 | 4,840 | 5,193 |
| Finance expense | 247 | 154 | 739 | 107 |
| Depreciation of property, plant and equipment | 2,438 | 2,353 | 9,235 | 7,573 |
| Amortization of intangible assets | 428 | 506 | 1,790 | 2,009 |
| Loss on disposal of property, plant and equipment | 86 | 172 | 105 | 190 |
| EBITDA | \$ 6,407 | \$ 6,171 | \$ 28,236 | \$ 27,140 |

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 addition of net changes in non-cash working capital items, less 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, 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 December 31, 2016, the Corporation has not entered into any off balance sheet arrangements.

CHANGES IN ACCOUNTING POLICIES

The Corporation has prepared its December 31, 2016 audited consolidated financial statements in accordance with IFRS. See Note 2 of the Corporation's audited annual Consolidated Financial Statements for more information regarding the significant accounting principles used to prepare the Consolidated Financial Statements.

RECENT ACCOUNTING PRONOUNCEMENTS

The following standard has been issued but has not yet been applied in preparing the consolidated financial statements.

- IFRS 15, Revenue from Contracts with Customers, was issued in May 2014 by the IASB and supersedes IAS 18, "Revenue", IAS 11 "Construction Contracts" and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation is in the process of evaluating the impact that IFRS 15 may have on the financial statements.
- IFRS 9, Financial Instruments, was issued in July 2014 by the IASB and supersedes IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. IFRS 9 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation is in the process of evaluating the impact that IFRS 9 may have on the financial statements.
- IFRS 2, Share-based Payment, was amended in June 2016 by IASB, addressing three classification and measurement issues. The amendment clarifies the measurement basis for cash-settled, share based payments and the accounting for modifications that change an award from cash-settled to equity settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly-equity settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a

share based payment and pay that amount to the tax authority. The Corporation is in the process of evaluating the impact that the amendment may have on the financial statements.

- IFRS 16, Leases, was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Corporation is in the process of evaluating the impact that IFRS 16 may have on the financial statements.

FINANCIAL INSTRUMENTS

K-Bro's financial instruments at December 31, 2016 consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and long-term debt. The Corporation does not enter into financial instruments for trading or speculative purposes. Financial assets are either classified as available for sale, held to maturity, trading or loans and receivables. Financial liabilities are recorded at amortized cost. Initially, all financial assets and financial liabilities must be recorded on the balance sheet at fair value. Subsequent measurement is determined by the classification of each financial asset and liability. Unrealized gains and losses on financial assets that are held as available for sale are recorded in other comprehensive income until realized, at which time they are recorded in the consolidated statement of earnings. All derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value in the consolidated balance sheet. Transaction costs related to financial instruments are capitalized and then amortized over the expected life of the financial instrument using the effective interest method.

Derivative financial instruments are utilized by the Corporation to manage cashflow risk against the volatility in interest rates on its long-term debt and foreign exchange rates on its equipment purchase commitments. The Corporation typically does not utilize derivative financial instruments for trading or speculative purposes. The Corporation has a floating interest rate debt that gives rise to risks that its earnings and cash flows may be adversely impacted by fluctuations in interest rates. In order to manage these risks, the Corporation may enter into interest rate swaps, forward contracts on foreign currency, utilities and textiles or option contracts. The Corporation has entered into several electrical and natural gas contracts at December 31, 2016. The Corporation has examined the terms of the natural gas and electricity contracts and has determined that these contracts will be physically settled and as such are not considered to be financial instruments.

CRITICAL RISKS AND UNCERTAINTIES

As at December 31, 2016, there are no material changes in the Corporation's risks or risk management activities since December 31, 2015. 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. The Corporation’s CEO and CFO have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2016, and the CEO and CFO have concluded that these controls were operating effectively.

Internal Controls over Financial Reporting

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting (“ICFR”). Consequently the CEO and CFO confirm that the additions to these controls that occurred during the year ended December 31, 2016 did not materially affect, or are reasonably likely to materially affect, the Corporation’s ICFR. Based upon their evaluation of these controls for the year ended December 31, 2016, the CEO and CFO have concluded that these controls were operating effectively.

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

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

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 »).