



K·BRO

Q1, 2016
Management's
Discussion &
Analysis

Dependable.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis ("MD&A") is supplemental to, and should be read in conjunction with, the unaudited interim condensed Consolidated Financial Statements of K-Bro Linen Inc. ("the Corporation") for the three months ended March 31, 2016 and the audited Consolidated Financial Statements, as well as the MD&A, for the year ended December 31, 2015. The Corporation and its wholly-owned subsidiaries, including K-Bro Linen Systems Inc., are collectively referred to as "K-Bro" in this MD&A.

Management is responsible for the information contained in this MD&A and its consistency with information presented to the Audit Committee and Board of Directors. All information in this document has been reviewed and approved by the Audit Committee and Board of Directors. This review was performed by management with information available as of May 11, 2016.

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

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

These statements are not guarantees of future performance and are based on management's estimates and assumptions that are subject to risks and uncertainties, which could cause K-Bro's actual performance and financial results in future periods to differ materially from the forward-looking information contained in this MD&A. These risks and uncertainties include, among other things: (i) risks associated with acquisitions, including the possibility of undisclosed material liabilities; (ii) K-Bro's competitive environment; (iii) utility and labour costs; (iv) K-Bro's dependence on long-term contracts with the associated renewal risk; (v) increased capital expenditure requirements; (vi) reliance on key personnel; (vii) changing trends in government outsourcing; and (viii) the availability of future financing. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information include: (i) volumes and pricing assumptions; (ii) expected impact of labour cost initiatives; and (iii) the level of capital expenditures. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements regarding forward-looking information included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A.

All forward-looking information in this MD&A is qualified by these cautionary statements. Forward-looking information in this MD&A is presented only as of the date made. Except as required by law, K-Bro does not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

This MD&A also makes reference to certain measures in this document that do not have any standardized meaning as prescribed by IFRS and, therefore, are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers. Please see "*Terminology*" for further discussion.

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INTRODUCTION

Core Business

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

Industry and Market

K-Bro provides laundry and linen services to Canadian healthcare, hospitality and other commercial customers. Typical services offered by K-Bro include the processing, management and distribution of general and operating room linens, including sheets, blankets, towels, surgical gowns and drapes and other linen. Other types of processors in K-Bro's industry in Canada include independent privately owned facilities (i.e. typically small, single facility companies), public sector central laundries and public and private sector on-premise laundries (known as "OPLs"). Participants in other sectors of the laundry and linen services industry, such as uniform rental companies (which own and launder uniforms worn by their customers' employees) typically do not offer services that significantly overlap with those offered by K-Bro.

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

In this competitive industry, K-Bro is distinctive in Canada in its ability to deliver products and services that provide value to our customers. Management believes that the healthcare and hospitality sectors of the laundry and linen services industry represent a stable base of annual recurring business with opportunities for growth as additional healthcare beds and funds are made available to meet the needs of an aging demographic.

SELECTED QUARTERLY FINANCIAL INFORMATION

<i>(thousands, except share and per share amounts)</i>	Three Months Ended March 31,		
	2016	2015	2014
Revenue	\$ 38,812	\$ 33,820	\$ 32,271
Earnings before income taxes	3,646	4,224	2,896
Net earnings	2,532	3,019	2,031
<i>Net earnings per share:</i>			
Basic	\$ 0.32	\$ 0.38	\$ 0.29
Diluted	\$ 0.32	\$ 0.38	\$ 0.29
Total assets	146,816	133,229	113,824
Long-term debt	5,970	-	18,609
Dividends declared to Shareholders	2,396	2,388	2,039
Dividends declared to Shareholders per share	\$ 0.300	\$ 0.300	\$ 0.288
<i>Weighted average number of shares outstanding:</i>			
Basic	7,945,997	7,914,367	7,031,739
Diluted	7,964,604	7,942,293	7,072,163

SUMMARY OF INTERIM RESULTS AND KEY EVENTS

Toronto Facility Development

As announced February 3, 2016, K-Bro will be relocating to a new state of the art facility in Toronto. The new Toronto plant will be located in Mississauga, and the Company expects to complete its transition to the new facility before the end of 2016. Management estimates that the costs to commission a new leased facility are expected to be approximately \$35 million for new efficiency enhancing equipment, leaseholds and conversion costs, with immediate returns anticipated from reduced labour, lower energy consumption and other work-flow improvements. 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 \$50 million credit facility.

New Vancouver Area Contract

K-Bro's contracts for three institutions with the Vancouver Coastal Health Authority and five institutions with the Fraser Health Authority expired on November 15, 2015. On March 2, 2016 K-Bro was awarded a contract to provide laundry and linen services for 23 healthcare facilities in Vancouver and the surrounding area. The new contract, which is for 10 years with renewal options for an additional 10 years, extends the existing relationship between K-Bro and Fraser Health Authority, Provincial Health Services Authority, and Vancouver Coastal Health Authority and is a result of a competitive RFS process. To accommodate the additional volume secured, K-Bro anticipates building a new state-of-the-art facility in the Vancouver area within the next 30 months with a projected investment of up to \$50 million. The new facility will enable K-Bro to expand current capacity as well as consider partial consolidation with its existing two Vancouver-area facilities. In addition, part of K-Bro's investment in the new facility will provide for an upgrade and replacement of equipment at its existing Vancouver-area facilities. K-Bro believes it will achieve significant operating efficiencies at its new plant. K-Bro will consider appropriate financing arrangements over the next two years.

Effects of Economic Uncertainty

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

- Approximately 72.5% of its revenues in the quarter were from large publicly funded healthcare customers which are geographically diversified across multiple provinces;
- At March 31, 2016, K-Bro had unutilized borrowing capacity of \$42.4 million or 84.8% 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)		Q1 2016	Q1 2015
Category	Indicator		
Growth	EBITDA ⁽¹⁾	7.5%	19.2%
	Revenue	14.8%	4.8%
	Distributable cash flow	7.7%	11.2%
Profitability	EBITDA ⁽¹⁾	\$ 6,776	\$ 6,304
	EBITDA margin	17.5%	18.6%
	Net earnings	\$ 2,532	\$ 3,019
Stability	Debt to total capitalization ⁽²⁾	5.0%	0.0%
	Unutilized line of credit	\$ 42,380	\$ 38,350
	Payout ratio	45.3%	48.6%
	Dividends declared per share	\$ 0.300	\$ 0.300
Cost containment	Wages and benefits	45.2%	44.6%
	Utilities	6.1%	6.3%
	Expenses included in EBITDA	82.5%	81.4%

⁽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*.

OUTLOOK

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

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

RESULTS OF OPERATIONS

Quarterly Financial Information

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

	2016		2015			2014		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Healthcare revenue	28,124	27,100	23,978	24,005	23,857	23,848	23,068	23,330
Hospitality revenue	10,688	10,580	13,722	11,332	9,963	9,945	12,960	11,018
Total revenue	38,812	37,680	37,700	35,337	33,820	33,793	36,028	34,348
Expenses included in EBITDA	32,036	31,507	30,123	28,251	27,516	27,460	28,411	27,344
EBITDA ⁽¹⁾	6,776	6,173	7,577	7,086	6,304	6,333	7,617	7,004
EBITDA as a % of revenue	17.5%	16.4%	20.1%	20.1%	18.6%	18.7%	21.1%	20.4%
Depreciation and amortization	2,737	2,859	2,326	2,219	2,178	2,255	2,273	2,216
Finance expense (recovery)	393	156	(128)	177	(98)	103	125	196
Loss (gain) on disposal of equipment	-	172	4	14	-	(30)	37	12
Earnings before income taxes	3,646	2,986	5,375	4,676	4,224	4,005	5,182	4,580
Income tax expense	1,114	828	1,523	1,637	1,205	922	1,431	1,247
Net earnings	2,532	2,158	3,852	3,039	3,019	3,083	3,751	3,333
Net earnings as a % of revenue	6.5%	5.7%	10.2%	8.6%	8.9%	9.1%	10.4%	9.7%
Basic earnings per share	0.319	0.272	0.486	0.384	0.381	0.433	0.533	0.474
Diluted earnings per share	0.318	0.271	0.483	0.382	0.380	0.432	0.529	0.471
Total assets	146,816	143,023	145,106	135,516	133,229	132,638	117,983	117,984
Total long-term financial liabilities	12,717	8,958	6,776	6,361	5,892	5,815	28,267	29,081
Funds provided by operations	6,726	3,897	5,733	3,773	4,214	9,401	7,787	2,705
Long-term debt	5,970	2,349	-	-	-	-	21,908	22,587
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.296

⁽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 amortization). See Terminology.

Revenue, Earnings and EBITDA

For the three months ended March 31, 2016, K-Bro's revenue increased by 14.8% to \$38.8 million from \$33.8 million in the comparative period. This increase was due to organic growth at existing customers across the plants, new customers secured in existing markets, and additional volume from the 3sHealth region associated with the commissioning of the new facility in Regina. In Q1, 2016 approximately 72.5% of K-Bro's revenue was generated from healthcare institutions which is comparable to 70.5% in Q1, 2015.

EBITDA increased to \$6.8 million for the three months ended March 31, 2016, compared to \$6.3 million in the comparative period of 2015. This was predominantly as a result of the flow through of revenue as described above offset by increased operating costs required to support the new 3sHealth volume.

Net earnings decreased by \$0.5 million or 16.1% from \$3.0 million in Q1, 2015 to \$2.5 million in Q1, 2016. Net earnings as a percentage of revenue decreased to 6.5% compared to 8.9% in 2015. This margin decrease is primarily due to higher depreciation of property, plant and equipment related to the new Regina facility, increased finance expense related to higher utilization of the credit facility and foreign exchange costs, offset by the flow through items in EBITDA discussed above.

Operating Expenses

Wages and benefits increased to \$17.5 million in 2016 from \$15.1 million in 2015, and increased as a percentage of revenue from 44.6% in 2015 to 45.2% in the same period of 2016. The increase in the period is due to incremental labour required to process increased volume, the transition and start-up costs incurred for the new facility in Regina as well as rising labour costs from incremental increases in the wage rate. The transition of the new Regina facility continues to progress with labour productivity expected to continue to improve resulting in a further decline in wages and benefits costs as a percentage of revenue throughout the remainder of the year.

Linen expenses increased to \$4.4 million in 2016 from \$3.6 million in 2015, and increased as a percentage of revenue to 11.2% from 10.8% in 2015. The increase in costs is primarily due to the additional linen required for the 3sHealth volume, in addition to increased linen costs related to pricing.

Utility costs increased to \$2.4 million compared to \$2.1 million in 2015 and decreased as a percentage of revenue to 6.1% from 6.3% in 2015, due to lower utility rates, offset by higher costs associated with the transition to the new Regina facility.

Delivery costs increased to \$2.1 million and to 5.4% as a percentage of revenues compared to \$1.5 million and 4.5% in Q1, 2015. The increase is a result of increased business activity and transition costs associated with the new 3sHealth volume.

Occupancy costs increased to \$1.3 million and to 3.3% as a percentage of revenue, compared to \$1.2 million and 3.6% in Q1, 2015. This increase is a result of a new distribution facility and additional costs associated with the commissioning of the new Regina facility.

Materials and supplies increased to \$1.3 million and to 3.3% as a percentage of revenues compared to \$1.0 million and 3.0% in Q1, 2015. The increase is a result of increased business activity and transition costs associated with the commissioning of the new Regina facility.

Repairs and maintenance increased in Q1, 2016 by \$0.1 million and decreased to 3.0% as a percentage of revenues over the comparative period of 2015, from 3.1% in Q1, 2015. The increase in costs is related to the timing of scheduled maintenance activities.

Corporate costs increased in Q1, 2016 by \$0.1 million and to 5.0% as a percentage of revenues compared to 5.3% in Q1, 2015. The increase in corporate costs is primarily due to an increase in the long term incentive compensation plan and an increase in costs to support the company's growth and business strategies across the plants

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

Finance expense increased to \$0.4 million in Q1, 2016 compared to a recovery of \$0.1 million in Q1, 2015. The increase is mainly attributable to increased foreign exchange costs, borrowing costs and higher utilization of the revolving credit facility during the year. Foreign exchange costs were incurred as part of the management's strategy to mitigate exposure for future cash settlements due in the current year for capital commitments denominated in foreign currency.

Income tax includes current and future income taxes based on taxable income and the temporary timing differences between the tax and accounting bases of assets and liabilities. Income tax reflects the effect of the increase in the Alberta provincial tax rate on the current income tax expense and the deferred tax liability from Q1 2015.

LIQUIDITY AND CAPITAL RESOURCES

In Q1, 2016 cash generated by operating activities was \$6.7 million, compared to cash generated by operating activities of \$4.2 million during Q1, 2015. The change in cash from operations is primarily due to the change in working capital items driven by timing differences related to the cash settlement of new plant equipment.

During Q1, 2016, cash provided from financing activities amounted to \$1.2 million compared to cash used in financing activities of \$2.4 million in Q1, 2015. Financing activities in Q1, 2016 consisted of net proceeds from the revolving credit facility, offset by dividends paid to Shareholders.

Investing activities resulted in a use of cash of \$8.0 million in Q1, 2016 compared to \$3.8 million in Q1, 2015. Investing activities for the current quarter related primarily to the cash settlement of plant equipment for the new Regina plant, and acquisition of plant equipment for the new Toronto facility.

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	\$ 5,970	-	5,970	-	-
Operating lease commitments ¹	\$ 35,640	3,656	8,199	5,645	18,140
Utility commitments	\$ 3,451	1,393	2,058	-	-
Linen purchase obligations	\$ 7,345	7,345	-	-	-
Property, plant and equipment commitments	\$ 20,086	20,086	-	-	-

1. The operating lease commitments reflected above include the commitments for the new Toronto facility lease that was signed on April 25, 2016.

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)	Three Months Ended March 31,	Year Ended December 31,
	2016	2015
Long-term debt	\$ 5,970	\$ 2,349
Shareholders' equity	113,956	113,240
Total capitalization	\$ 119,926	\$ 115,589
Debt to total capitalization (see <i>Terminology</i> for definition)	5.0%	2.0%

For the quarter ended March 31, 2016, the Corporation had a debt to total capitalization of 5.0%, unused revolving credit facility of \$42.4 million and has not incurred any events of default under the terms of its credit facility agreement.

As at March 31, 2016, the Corporation had net working capital of \$10.3 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.

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	Amount per Share	Total Amount (1)
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

(1) 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.

For the three months ended March 31, 2016, the Corporation declared a \$0.300 per share dividend compared to \$0.664 per Share of Distributable Cash Flow (see *Terminology*). The payout ratio for the three months ended March 31, 2016 was 45.3%.

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				2014		
	Q1		Q4	Q3	Q2	Q1	Q4	Q3	Q2
Cash provided by operating activities	\$ 6,726		\$ 3,897	\$ 5,733	\$ 3,773	\$ 4,214	\$ 9,401	\$ 7,787	\$ 2,705
<i>Deduct (add):</i>									
Net changes in non-cash working capital items ⁽¹⁾	665		(1,387)	(1,193)	(2,302)	(1,439)	3,878	1,544	(2,995)
Share-based compensation	483		262	329	334	379	306	319	102
Maintenance capital expenditures ⁽²⁾	293		420	226	268	365	309	127	491
Distributable cash flow	\$ 5,285		\$ 4,602	\$ 6,371	\$ 5,473	\$ 4,909	\$ 4,908	\$ 5,797	\$ 5,107
Dividends declared	2,396		2,396	2,396	2,391	2,388	2,220	2,137	2,102
Dividends declared per share	0.300		0.300	0.300	0.300	0.300	0.300	0.300	0.296
Payout ratio ⁽³⁾	45.3%		52.1%	37.6%	43.7%	48.6%	45.2%	36.7%	41.0%
Weighted average shares outstanding during the period, basic	7,946		7,930	7,922	7,916	7,914	7,113	7,042	7,034
Weighted average shares outstanding during the period, diluted	7,965		7,948	7,974	7,966	7,942	7,134	7,096	7,083
Trailing-twelve months ("TTM")									
Distributable cash flow	21,731		21,355	21,661	21,086	20,721	20,228	20,077	18,482
Dividends	9,579		9,570	9,394	9,136	8,847	8,498	8,317	8,219
Payout ratio ⁽³⁾	44.1%		44.8%	43.4%	43.3%	42.7%	42.0%	41.4%	44.5%

- (1) Net changes in non-cash working capital is excluded from the calculation as management believes it would introduce significant cash flow variability and affect underlying cash flow from operating activities. Significant variability can be caused by such things as the timing of receipts (which individually are large because of the nature of K-Bro's customer base and timing may vary due to the timing of customer approval, vacations of customer personnel, etc.) and the timing of disbursements (such as the payment of large volume rebates done once annually). As well, large increases in working capital are generally required when contracts with new customers are signed as linen is purchased and accounts receivable increase. Management feels that this amount should be excluded from the distributable cash flow calculation.
- (2) Maintenance capital expenditures include costs required to maintain or replace assets which do not have a discrete return on investment.
- (3) The ratio of dividends paid compared to distributable cash flow is periodically reviewed by the Board of Directors to take into account the current and prospective performance of the business and other items considered to be prudent. Payout ratio is calculated on the dividends declared divided by the distributable cash flow.

OUTSTANDING SHARES

As at March 31 and May 11, 2016, the Corporation had 7,985,713 common shares outstanding. Basic and diluted weighted average number of common shares outstanding for the three months ended March 31, 2016 were 7,945,997 and 7,964,604, respectively, (7,914,367 and 7,942,293, respectively, for the comparative 2015 interim 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 March 31, 2016, the value of the shares held in trust by the LTI trustee was \$1.8 million (December 31, 2015 – \$2.0 million) which was comprised of 39,716 in unvested common shares (December 31, 2015 – 39,716) with a nil aggregate cost (December 31, 2015 – \$nil).

RELATED PARTY TRANSACTIONS

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by Mr. Matthew Hills, a director of the Corporation. For the three period ended March 31, 2016, the Corporation incurred fees totaling \$34,500, compared to \$34,500 for the same period of fiscal 2015.

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, 2015.

TERMINOLOGY

EBITDA

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

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

<i>(thousands)</i>	Three Months Ended March 31,	
	2016	2015
Net earnings	\$ 2,532	\$ 3,019
Add:		
Income tax expense	1,114	1,205
Finance expense (recovery)	393	(98)
Depreciation of property, plant and equipment	2,231	1,688
Amortization of intangible assets	506	490
EBITDA	\$ 6,776	\$ 6,304

Non-GAAP Measures

Distributable Cash Flow

Distributable cash flow is a measure used by management to evaluate its performance. While the closest IFRS measure is cash provided by operating activities, distributable cash flow is considered relevant because it provides an indication of how much cash generated by operations is available after capital expenditures. It shall be noted that although we consider this measure to be distributable cash flow, financial and non-financial covenants in our credit facilities and dealer agreements may restrict cash from being available for dividends, re-investment in the Corporation, potential acquisitions, or other purposes. Investors should be cautioned that distributable cash flow may not actually be available for growth or distribution from the Corporation. References to “Distributable cash flow” are to cash provided by (used in) operating activities (including the net change in non-cash working capital balances) less capital expenditures.

Payout Ratio

Payout ratio is defined by management as the actual cash dividend divided by distributable cash. This is a key measure used by investors to value K-Bro, assess its performance and provide an indication of the sustainability of dividends. The payout ratio depends on the distributable cash and the Corporation’s dividend policy.

Debt to Total Capitalization

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

Distributable Cash Flow, Payout Ratio, Debt to Total Capitalization, Adjusted EBITDA, Adjusted net earnings, and Adjusted net earnings per share are not calculations based on IFRS and are not considered an alternative to IFRS measures in measuring K-Bro’s performance. Distributable Cash Flow, Payout Ratio, Adjusted EBITDA, Adjusted net earnings, and Adjusted net earnings per share do not have standardized meanings in IFRS and are therefore not likely to be comparable with similar measures used by other issuers.

Off Balance Sheet Arrangements

As at March 31, 2016, the Corporation has not entered into any off balance sheet arrangements.

CHANGES IN ACCOUNTING POLICIES

The Corporation has prepared its March 31, 2016 interim condensed consolidated financial statements in accordance with IAS 34, Interim Financial Reporting, as issued by the IASB and incorporated the same accounting principles and methods used in the preparation of the audited annual Consolidated Financial Statements. See Note 2 of the Corporation’s audited annual Consolidated Financial Statements for more information regarding the significant accounting principles used to prepare the interim Consolidated Financial Statements.

RECENT ACCOUNTING PRONOUNCEMENTS

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

- IFRS 15, Revenue from Contracts with Customers, was issued in May 2014 by the IASB and supersedes IAS 18, “Revenue”, IAS 11 “Construction Contracts” and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and

when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation is in the process of evaluating the impact that IFRS 15 may have on the financial statements.

- 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 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.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Corporation.

CRITICAL RISKS AND UNCERTAINTIES

As at March 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.

Internal Controls over Financial Reporting

There were no changes in internal controls over financial reporting (“ICFR”) during the three month period ended March 31, 2016 that materially affected, or are reasonably likely to materially affect, the Corporation’s ICFR.

The Corporation’s CEO and CFO have determined that there is not a material weakness in the design of disclosure controls and procedures and internal controls over financial reporting which existed as at March 31, 2016.

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, 2015.

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 »).