Management's Discussion & Analysis
Year Ended December 31, 2014

dependable.

K-Bro Linen Inc.

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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, 2014 and 2013, as well as the unaudited interim condensed Consolidated Financial Statements for the periods ended March 31, 2014, June 30, 2014 and September 30, 2014. The Corporation and its wholly-owned subsidiaries, including K-Bro Linen Systems Inc., are collectively referred to as "K-Bro" in this MD&A.

Management is responsible for the information contained in this MD&A and its consistency with information presented to the Audit Committee and Board of Directors. All information in this document has been reviewed and approved by the Audit Committee and Board of Directors. This review was performed by management with information available as of March 11, 2015.

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

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

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

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

This MD&A also makes reference to certain measures in this document that do not have any standardized meaning as prescribed by IFRS and, therefore, are considered additional GAAP 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 eight processing facilities and one distribution centre in eight Canadian cities including Victoria, Vancouver, Calgary, Edmonton, Saskatoon, Toronto, Montréal and Québec City.

Industry and Market

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

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

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

Industry Characteristics and Trends

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

> *Stable Industry with Moderate Cyclicality* – 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 30 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 2014, revenue was $33.8 million which was 4.5% higher than the $32.3 million generated in the comparative quarter of 2013. This year-over-year increase was due to organic growth from existing customers across the plants and additional services provided to the Saskatoon Health Region. EBITDA increased from $5.4 million in Q4, 2013 to $6.3 million in Q4, 2014, this increase was a result of increased efficiencies resulting from the move to the new Edmonton facility, organic growth from existing customers across the plants and additional services provided to the Saskatoon Health Region.

SELECTED ANNUAL FINANCIAL INFORMATION

(thousands, except share and per share amounts)	2014		2013		2012
Revenue	$ 136,440	$	131,202	$	126,290
Earnings before income taxes	16,663		14,509		15,324
Net earnings	12,198		10,336		11,149
Net earnings per share:					
Basic	$ 1.72	$	1.47	$	1.60
Diluted	$ 1.72	$	1.47	$	1.59
Total assets	132,638		112,330		94,800
Long-term debt	-		19,640		5,818
Dividends declared to Shareholders	8,498		8,142		7,977
Dividends declared to Shareholders per share	$ 1.183	$	1.150	$	1.133
Number of shares outstanding:					
Basic	7,090,937		7,022,699		6,981,432
Diluted	7,111,232		7,054,235		6,993,561

SUMMARY OF 2014 RESULTS AND KEY EVENTS

Financial Growth

K-Bro delivered strong financial results in 2014 driven by the operating results from all eight of its processing plants. Net earnings were $12.2 million or $1.72 per share (basic). Cash flow from operating activities was $23.9 million and distributable cash flow was $20.2 million. Revenue increased in fiscal 2014 to $136.4 million or by 4.0% compared to 2013. This increase was due to a combination of additional services provided to the Saskatoon Health Region and organic growth from existing customers across the plants.

EBITDA (see *Terminology*) increased in the year to $26.2 million from $23.3 million in 2013, which is an increase of 12.5%. The EBITDA margin increased to 19.2% in 2014 compared 17.8% in 2013. Both the EBITDA and EBITDA margin increase were predominantly a result of increased efficiencies as a result of the move to the new Edmonton facility, organic growth from existing customers across the plants, and additional services provided to the Saskatoon Health Region.

Regina Facility Development

Management estimates that the costs to commission a new facility in Regina are expected to be approximately $35.6 million for new equipment, land and building. The expected costs to commission the facility have increased from that previously disclosed as a result of the weakening Canadian dollar. Costs associated with the new facility began to be incurred in Q2, 2014 and will continue to be incurred until Q3, 2015. As at December 31, 2014, K-Bro has incurred $11.2 million of the total expected capital cost. Management expects the new facility to commence processing in late Q3, 2015.

Equity Offering

On December 9, 2014, the Corporation issued 839,500 common shares (10.5% of total share capital issued) as a part of an equity offering. The common shares issued have the same rights as the other shares in issue. The fair market value of the shares issued amounted to $34.8 million ($41.50/share). The related transaction costs amounting to $1.3 million have been netted against the deemed proceeds.

Effects of Economic Uncertainty

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

- Approximately 70.6% of its revenues in the quarter were from large publicly funded healthcare customers which are geographically diversified across multiple provinces;
- At December 31, 2014, K-Bro had unutilized borrowing capacity of $38.4 million or 95.9% of the revolving credit line available and cash of $13.7 million; and,
- K-Bro's prudent approach to managing capital has added cash flow and liquidity to the Corporation, thereby improving its ability to withstand the turmoil in the national and global capital markets.

K-Bro is a participant in the temporary foreign worker ("TFW") program in our facilities where genuine labour shortages exist, predominantly within our Alberta plants. During the year, the federal government reviewed the TFW program and implemented various rule changes. These changes include stricter application requirements, higher application fees, caps on TFW in low wage positions, refusal of applications in regions of high unemployment, reduction to work permit durations, and increased government inspections. The rule changes, if implemented as set out, are not expected to have a material effect on the financial results or operations of the Corporation.

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, 2014	Q4, 2013	YTD 2014	YTD 2013
Growth	EBITDA[1]	**16.8%**	-6.2%	**12.5%**	-4.9%
	Adjusted EBITDA[2]	**16.8%**	-6.2%	**9.2%**	-3.0%
	Revenue	**4.5%**	2.2%	**4.0%**	3.9%
	Distributable cash flow	**3.2%**	8.1%	**9.7%**	-3.5%
Profitability	EBITDA[1]	**$ 6,333**	$ 5,421	**$ 26,241**	$ 23,317
	EBITDA margin	**18.7%**	16.8%	**19.2%**	17.8%
	Adjusted EBITDA[2]	**$ 6,333**	$ 5,421	**$ 26,241**	$ 24,030
	Adjusted EBITDA margin[2]	**18.7%**	16.8%	**19.2%**	18.3%
	Net earnings	**$ 3,083**	$ 2,117	**$ 12,198**	$ 10,336
	Adjusted net earnings[3]	**$ 3,083**	$ 2,117	**$ 12,198**	$ 10,835
Stability	Debt to total capitalization[4]	**0.0%**	21.6%	**0.0%**	21.6%
	Unutilized line of credit	**$ 38,350**	$ 19,710	**$ 38,350**	$ 19,710
	Payout ratio	**45.2%**	42.8%	**42.0%**	44.2%
	Dividends declared per share	**$ 0.300**	$ 0.288	**$ 1.183**	$ 1.150
Cost containment	Wages and benefits	**44.8%**	46.7%	**44.8%**	46.4%
	Utilities	**6.4%**	6.6%	**6.5%**	6.4%
	Expenses included in EBITDA	**81.3%**	83.2%	**80.8%**	82.2%

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

[2] Adjusted EBITDA is defined as EBITDA (defined above) plus or minus non-recurring, infrequent and/or unusual transactions which did not occur during the preceding two years and are not expected to recur within the next two years. See *Terminology* for a complete description of the adjusted items.

[3] Adjusted net earnings is defined as net earnings plus or minus non-recurring, infrequent and/or unusual transactions net of corporate income taxes which did not occur during the preceding two years and are not expected to recur within the next two years. See *Terminology* for a complete description of the adjusted items.

[4] 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:

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	**23,848**	23,068	23,330	22,641	22,607	21,874	22,124	22,288
Hospitality revenue	**9,945**	12,960	11,018	9,630	9,737	12,677	10,536	9,359
Total revenue	**33,793**	36,028	34,348	32,271	32,344	34,551	32,660	31,647
Expenses included in EBITDA	**27,460**	28,411	27,344	26,984	26,923	28,816	26,403	25,743
EBITDA[1]	**6,333**	7,617	7,004	5,287	5,421	5,735	6,257	5,904
EBITDA as a % of revenue	**18.7%**	21.1%	20.4%	16.4%	16.8%	16.6%	19.2%	18.7%
Adjusted EBITDA[2]	**6,333**	7,617	7,004	5,287	5,421	6,448	6,257	5,904
Depreciation and amortization	**2,255**	2,273	2,216	2,194	2,304	1,887	1,940	1,974
Financial charges	**103**	125	196	169	176	169	127	123
Loss (gain) on disposal of equipment	**(30)**	37	12	28	25	5	78	-
Earnings before income taxes	**4,005**	5,182	4,580	2,896	2,916	3,674	4,112	3,807
Income tax expense	**922**	1,431	1,247	865	799	1,103	1,226	1,045
Net earnings	**3,083**	3,751	3,333	2,031	2,117	2,571	2,886	2,762
Net earnings as a % of revenue	**9.1%**	10.4%	9.7%	6.3%	6.5%	7.4%	8.8%	8.7%
Basic earnings per share	**0.433**	0.533	0.474	0.289	0.301	0.366	0.411	0.393
Diluted earnings per share	**0.432**	0.529	0.471	0.287	0.300	0.364	0.410	0.391
Adjusted net earnings[3]	**3,083**	3,751	3,333	2,031	2,117	3,070	2,886	2,762
Basic adjusted earnings per share[3]	**0.433**	0.533	0.474	0.289	0.301	0.437	0.411	0.393
Diluted adjusted earnings per share[3]	**0.432**	0.529	0.471	0.287	0.300	0.435	0.410	0.391
Total assets	**132,638**	117,983	117,984	113,824	112,330	107,911	104,226	99,452
Total long-term financial liabilities	**5,815**	28,267	29,081	25,066	25,619	22,515	20,794	10,442
Funds provided by operations	**9,401**	7,787	2,705	4,016	6,399	5,106	(1,499)	9,180
Long-term debt	**-**	21,908	22,587	18,609	19,640	17,028	15,338	5,162
Dividends declared per share	**0.300**	0.300	0.296	0.288	0.288	0.288	0.288	0.288

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

(2) Adjusted EBITDA is defined as EBITDA (defined above) plus or minus non-recurring, infrequent and/or unusual transactions which did not occur during the preceding two years and are not expected to recur within the next two years. See *Terminology* for a complete description of the adjusted items.

(3) Adjusted net earnings is defined as net earnings plus or minus non-recurring, infrequent and/or unusual transactions net of corporate income taxes which did not occur during the preceding two years and are not expected to recur within the next two years. See *Terminology* for a complete description of the adjusted items.

Revenue, EBITDA, Adjusted EBITDA and Earnings

For the year ended December 31, 2014, K-Bro's revenue was $136.4 million, compared to $131.2 million in the prior year. This represents a 4.0% increase in revenue and is due to a combination of organic growth and additional services provided to the Saskatoon Health Region. In 2014 approximately 68.1% of K-Bro's revenue was generated from healthcare institutions compared to 67.8% in 2013.

EBITDA was $26.2 million in 2014, compared to $23.3 million in 2013. This 12.5% increase was predominantly a result of increased efficiencies as a result of the move to the new Edmonton facility, organic growth from existing customers across the plants, additional volume from Saskatoon Health Region, and the recognition of an expense for the remaining lease payments on the former processing facility in Edmonton in Q3, 2013 which was offset by increased lease costs for the new Edmonton facility in 2014.

Net earnings increased in 2014 to $12.2 million from $10.3 million in 2013. Net earnings as a percentage of revenue increased to 8.9% compared to 7.9% in 2013. This margin increase is due to a flow through effect of the increase in the EBITDA.

Operating Expenses

Wages and benefits increased from $60.9 million in 2013 to $61.2 million in 2014 and decreased as a percentage of revenues to 44.8% from 46.4%. This decrease was a result of increased efficiencies as a result of the move to the new Edmonton facility, partially offset by incremental increases in the wage rate provided earlier in the year during Q1, 2014.

Linen expenses increased to $14.4 million from $13.8 million and increased to 10.6% from 10.5% as a percentage of revenue. The increase was a result of additional services provided to healthcare customers along with organic growth across the plants.

Utility costs slightly increased from 6.4% in 2013 to 6.5% as a percentage of revenue in 2014. This increase was a result of higher commodity costs in early 2014 as compared to 2013 and was partially offset by increased efficiencies as a result of the move to the new Edmonton facility.

Delivery costs have increased to $6.2 million compared to $6.0 million in 2013, but remained constant as a percentage of revenues at 4.6%.

Materials and supplies and repairs and maintenance remained constant as a percentage of revenue 2014 compared to 2013.

Occupancy costs increased slightly to $4.8 million or 3.5% of revenues compared to $4.7 million and 3.6% in 2013. The increase is mainly attributable to the increased lease costs of the new Edmonton facility offset by the recognition in 2013 of the onerous contract that related to the old Edmonton facility.

Corporate costs increased in 2014 by $0.5 million over the comparative period of 2013 and increased as a percentage of revenues to approximately 4.4%. The increase is due to an increase in the management personal 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.

Income tax includes current and deferred income taxes based on taxable income and the temporary timing differences between the tax and accounting bases of assets and liabilities. The Corporation's effective tax rate decreased to approximately 26.8% of net earnings from 28.8% in 2013. This decrease was a result of a decrease in non-deductible expenses.

LIQUIDITY AND CAPITAL RESOURCES

In 2014 cash generated by operating activities was $23.9 million, compared to cash generated by operating activities of $19.2 million in 2013. The change in cash from operations is due to the increase in earnings and changes in working capital.

During 2014, cash generated from financing activities amounted to $5.1 million compared to $5.7 million generated in 2013. Financing activities in 2014 included $33.1 million in net proceeds from issuance of common shares offset by $19.6 million in repayment of long term debt and $8.4 million in dividends paid to Shareholders.

The Corporation used cash of $15.2 million in investing activities during 2014 compared to $24.9 million in 2013. The decrease in cash used in investing activities is driven by the purchase of property, plant and equipment for the new Edmonton facility in 2013, offset by the purchase of property, plant and equipment across the plants and purchases associated with the construction of the new Regina facility in 2014.

Contractual Obligations

At December 31, 2014, 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	$	-	-	-	-	-
Operating leases and utility commitments	$	32,650	5,740	10,023	5,159	11,728
Linen purchase obligations	$	4,322	4,322	-	-	-
Property, plant and equipment commitments	$	21,741	21,741	-	-	-

The operating lease obligations are secured by automotive equipment, 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)		2014		2013
Long-term debt	$	-	$	19,640
Shareholders' equity		109,438		71,116
Total capitalization	$	109,438	$	90,756
Debt to total capitalization (see *Terminology* for definition)		0.0%		21.6%

For the year ended December 31, 2014, the Corporation had a payout ratio (see *Terminology*) of 42.0%, a debt to total capitalization of 0%, an unused revolving credit facility of $38.4 million and has not incurred any events of default under the terms of its credit facility agreement.

As at December 31, 2014, the Corporation had net working capital of $21.7 million compared to its working capital position of $9.4 million at December 31, 2013.

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 may also be able to access equity financing, depending upon pricing and availability, for capital spending to sustain its property, plant and equipment.

DIVIDENDS

Fiscal Period	Payment Date	# of Shares outstanding	2014 Amount per Share	2014 Total Amount[1][2]	2013 Amount per Share	2013 Total Amount
January	February 15	7,095,343	$ 0.09580	$ 680	$ 0.09580	$ 676
February	March 15	7,095,343	0.09580	680	0.09580	676
March	April 13	7,095,343	0.09580	680	0.09580	676
Q1			$ 0.28740	$ 2,039	$ 0.28741	$ 2,028
April	May 15	7,095,343	$ 0.09580	$ 680	$ 0.09580	$ 676
May	June 15	7,095,343	0.10000	710	0.09580	680
June	July 15	7,129,619	0.10000	713	0.09580	680
Q2			$ 0.29580	$ 2,102	$ 0.28741	$ 2,036
July	August 15	7,129,619	$ 0.10000	$ 713	$ 0.09580	$ 680
August	September 15	7,120,235	0.10000	712	0.09580	680
September	October 15	7,120,235	0.10000	712	0.09580	680
Q3			$ 0.30000	$ 2,137	$ 0.28741	$ 2,039
October	November 15	7,120,235	$ 0.10000	$ 712	$ 0.09580	$ 680
November	December 14	7,120,235	0.10000	712	0.09580	680
December	January 15	7,959,735	0.10000	796	0.09580	680
Q4			$ 0.30000	$ 2,220	$ 0.28741	$ 2,039
YTD			$ 1.18320	$ 8,498	$ 1.14964	$ 8,142

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

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

For the year ended December 31, 2014, the Corporation distributed $1.18 per share compared with $2.85 per diluted share of Distributable Cash (see *Terminology*). The actual payout ratio was 42.0%.

The Corporation's policy is to pay dividends to Shareholders from its available distributable cash flow while considering requirements for capital expenditures, working capital, growth capital and other reserves considered advisable by the Directors of the Corporation. All such dividends are discretionary. Dividends are declared payable each month in equal amounts to Shareholders on the last business day of each month and are paid by the 15th of the following month.

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

DISTRIBUTABLE CASH FLOW *(see Terminology)*

(all amounts in this section in $000's except per share amounts and percentages)

The Corporation's source of cash for dividends is distributable cash flow provided by operating activities. Distributable cash flow, reconciled to cash provided by operating activities as calculated under IFRS, is presented as follows:

(thousands, except per share amounts and percentages)	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash provided by operating activities	**$ 9,401**	$ 7,787	$ 2,705	$ 4,016	$ 6,399	$ 5,106	$ (1,499)	$ 9,180
Deduct (add):								
Net changes in non-cash working capital items[1]	**3,878**	1,544	(2,995)	(1,087)	1,201	332	(6,956)	4,049
Share-based compensation expense	**306**	319	102	372	261	279	377	320
Maintenance capital expenditures[2]	**309**	127	491	315	180	293	240	173
Distributable cash flow	**$ 4,908**	$ 5,797	$ 5,107	$ 4,416	$ 4,757	$ 4,202	$ 4,840	$ 4,638
Distributable cash flow per weighted average diluted shares outstanding	**$ 0.688**	$ 0.817	$ 0.721	$ 0.624	$ 0.673	$ 0.596	$ 0.688	$ 0.657
Dividends declared	**2,220**	2,137	2,102	2,039	2,039	2,039	2,036	2,028
Dividends declared per share	**0.300**	0.300	0.296	0.288	0.288	0.288	0.288	0.288
Payout ratio[3]	**45.2%**	36.7%	41.0%	46.2%	42.8%	48.4%	41.9%	43.9%
Weighted average shares outstanding during the period, basic	**7,113**	7,042	7,034	7,032	7,031	7,031	7,020	7,019
Weighted average shares outstanding during the period, diluted	**7,134**	7,096	7,083	7,072	7,065	7,055	7,038	7,054
Trailing-twelve months ("TTM")								
Distributable cash flow	**20,228**	20,077	18,482	18,215	18,437	18,080	19,158	19,358
Dividends	**8,498**	8,317	8,219	8,153	8,142	8,131	8,120	8,077
Payout ratio[3]	**42.0%**	41.4%	44.5%	44.8%	44.2%	45.0%	42.5%	41.7%

[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 includes costs required to maintain or replace assets which do not have a discrete return on investment.

[3] The ratio of dividends paid compared to distributable cash flow is periodically reviewed by the Board of Directors to take into account the current and prospective performance of the business and other items considered to be prudent. Payout ratio is calculated on the dividends declared divided by the distributable cash flow.

OUTSTANDING SHARES

At December 31, 2014, the Corporation had 7,959,735 common shares outstanding. Basic and diluted weighted average number of common shares outstanding for 2014 were 7,090,937 and 7,111,232 respectively, (7,022,699 and 7,054,235, respectively for the comparative 2013 periods).

In accordance with the LTI plan and in conjunction with the performance of the Corporation in the 2013 fiscal year, on May 8, 2014 the Compensation, Nominating and Corporate Governance Committee of the Board of Directors approved LTI compensation of $1.4 million (2013 – $1.5 million) to be paid as shares issued from treasury. As at December 31, 2014, the market value of the shares held in trust by the LTI trustee was $2.1 million (December 31, 2013 – $2.5 million) which was comprised of 45,368 in unvested common shares (December 31, 2013 – 63,604) with a nil aggregate cost (December 31, 2013 – $nil).

As at March 11, 2015, there were 7,959,735 common shares issued and outstanding.

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, 2014, the Corporation incurred fees totaling $138,000 (2013 – $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. At this time, K-Bro does not believe any intangible assets have a book value in excess of their fair market value.

TERMINOLOGY

Additional GAAP Measures

EBITDA

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

EBITDA is not a calculation based on IFRS and is not considered an alternative to net earnings in measuring K-Bro's performance. EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other issuers. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, capital expenditures, debt changes and other sources and uses of cash, which are disclosed in the consolidated statements of cash flows.

	Three Months Ended December 31,		Year Ended December 31,	
(thousands)	**2014**	2013	**2014**	2013
Net earnings	**$ 3,083**	$ 2,117	**$ 12,198**	$ 10,336
Add:				
Income tax expense	**922**	799	**4,465**	4,173
Financial charges	**103**	176	**593**	595
Depreciation of property, plant and equipment	**1,725**	1,774	**6,817**	5,965
Amortization of intangible assets	**530**	530	**2,121**	2,140
(Gain)Loss on disposal of property, plant and equipment	**(30)**	25	**47**	108
EBITDA	**$ 6,333**	$ 5,421	**$ 26,241**	$ 23,317

Non-GAAP Measures

Adjusted EBITDA

Adjusted EBITDA is a measure which has been reported in order to assist in the comparison of historical EBITDA to current results. The calculation of Adjusted EBITDA normalizes the impact of non-recurring infrequent and/or unusual transactions which did not occur during the preceding two years and are not expected to recur within the next two years, and the related impact on EBITDA (as defined above). During the third quarter ended September 30, 2013, a charge equivalent to the remaining lease payments for decommissioned facilities was recognized as occupancy costs. The normalization of this expense from the calculation of EBITDA is considered by Management to be a more accurate representation of continuing operations.

(thousands)	Three Months Ended December 31, 2014		Three Months Ended December 31, 2013		Year Ended December 31, 2014		Year Ended December 31, 2013	
EBITDA	$	6,333	$	5,421	$	26,241	$	23,317
Add:								
Occupancy expense of decommissioned facilities		-		-		-		713
Adjusted EBITDA	$	6,333	$	5,421	$	26,241	$	24,030

Adjusted Net Earnings and Adjusted Net Earnings per Share

Adjusted net earnings and *adjusted net earnings per share* are measures which have been reported in order to assist in the comparison of historical net earnings to current results. The calculation of Adjusted net earnings normalizes the impact of non-recurring infrequent and/or unusual transactions net of corporate income taxes which did not occur during the preceding two years and are not expected to recur within the next two years, and the related impact on net earnings and net earnings per share. The normalization of this net expense in the calculation of adjusted net earnings and adjusted net earnings per share is considered by management to be a more accurate representation of the net earnings from continuing operations.

(thousands)	Three Months Ended December 31, 2014		Three Months Ended December 31, 2013		Year Ended December 31, 2014		Year Ended December 31, 2013	
Net earnings	$	3,083	$	2,117	$	12,198	$	10,336
Add/(deduct), net of corporate income taxes:								
Occupancy expense of decommissioned facilities		-		-		-		499
Adjusted net earnings	$	3,083	$	2,117	$	12,198	$	10,835
Adjusted net earnings, per share:								
Basic	$	0.43	$	0.30	$	1.72	$	1.54
Diluted	$	0.43	$	0.30	$	1.72	$	1.54

For the year ended December 31, 2014, each of the non-GAAP adjusted measures noted above (adjusted EBITDA, adjusted net earnings and adjusted net earnings per share) are equivalent to their unadjusted measures. Accordingly, no calculations have been presented for these three 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 December 31, 2014, the Corporation has not entered into any off balance sheet arrangements.

CHANGES IN ACCOUNTING POLICIES

The Corporation has prepared its December 31, 2014 audited Consolidated Financial Statements in accordance with IFRS. See note 2 of the Corporation's audited Consolidated Financial Statements for more information regarding the significant accounting principles used to prepare the audited Consolidated Financial Statements.

The Corporation has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

- IFRS 21, *Levies*, requires the Corporation to consider certain government imposed payments, or levies, such as property tax to determine whether the obligating event requiring recognition of a liability arises at a point in time or a period of time. As legislation can vary in different jurisdictions this change was applied and considered for each jurisdiction based on the relevant facts and circumstances. The adoption of IFRIC 21 did not result in any change to the method of recognizing liabilities arising from levies for the Corporation.

RECENT ACCOUNTING PRONOUNCMENTS

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, 2017, with earlier application permitted. The company 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 company is in the process of evaluating the impact that IFRS 9 may have on the financial statements.

FINANCIAL INSTRUMENTS

K-Bro's financial instruments at December 31, 2014 consist of cash and cash equivalents, accounts receivable, accounts payable, dividends payable, and accrued liabilities. 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, 2014. 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, 2014, there are no material changes in the Corporation's risks or risk management activities since December 31, 2013. 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 Vice-President and Chief Financial Officer ("CFO"), are responsible for establishing and maintaining disclosure controls and procedures, as well as internal control over financial reporting.

During the fourth quarter of 2014, the Corporation adopted the Internal Control-Integrated Framework (2013 COSO Framework) as published by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

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, 2014, 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, 2014 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, 2014, 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 »).