Management's Discussion & Analysis
Year Ended December 31, 2015

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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, 2015 and 2014, as well as the unaudited interim condensed Consolidated Financial Statements for the periods ended March 31, 2015, June 30, 2015 and September 30, 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 March 10, 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.

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 2015, revenue was $37.7 million which was 11.5% higher than the $33.8 million generated in the comparative quarter of 2014. This year-over-year increase was due to the additional volume from the 3sHealth region associated with the commissioning of the new facility in Regina, organic growth at existing customers across the plants, and new customers secured in existing markets. EBITDA decreased from $6.3 million in Q4, 2014 to $6.2 million in Q4, 2015, this decrease was primarily due to the startup and transition costs related to the new Regina facility and rising labour costs from incremental increases in the wage rate.

SELECTED ANNUAL FINANCIAL INFORMATION

(thousands, except share and per share amounts)	**2015**	2014	2013
Revenue	**$ 144,537**	$ 136,440	$ 131,202
Earnings before income taxes	**17,261**	16,663	14,509
Net earnings	**12,068**	12,198	10,336
Net earnings per share:			
Basic	**$ 1.52**	$ 1.72	$ 1.47
Diluted	**$ 1.52**	$ 1.72	$ 1.47
Total assets	**143,023**	132,638	112,330
Long-term debt	**2,349**	-	19,640
Dividends declared to Shareholders	**9,570**	8,498	8,142
Dividends declared to Shareholders per share	**$ 1.200**	$ 1.183	$ 1.150
Weighted average number of shares outstanding:			
Basic	**7,920,609**	7,090,937	7,022,699
Diluted	**7,930,492**	7,111,232	7,054,235

SUMMARY OF 2015 RESULTS AND KEY EVENTS

Financial Growth

K-Bro delivered strong financial results in 2015 driven by the operating results from all nine of its processing plants and two distribution centers. Net earnings were $12.1 million or $1.52 per share (basic). Cash flow from operating activities was $17.6 million and distributable cash flow was $21.4 million. Revenue increased in fiscal 2015 to $144.5 million or by 5.9% compared to 2014. This increase was due to a combination of the additional volume from the 3sHealth region associated with the commissioning of the new facility in Regina, organic growth at existing customers across the plants, and new customers secured in existing markets.

EBITDA (*see Terminology*) increased in the year to $27.1 million from $26.2 million in 2014, which is an increase of 3.4%. The EBITDA margin decreased from 19.2% in 2014 compared to 18.8% in 2015. The change in EBITDA and margin is primarily due to due to factors discussed above, offset by transition and start-up costs related to the new Regina facility and rising labour costs from incremental increases in the wage rate.

Regina Facility Development

During Q4, K-Bro completed construction of the new Regina facility. Management estimates that the total costs to commission the new facility are approximately $35.6 million for new equipment, land and building. Transition into and start-up of the new facility commenced in Q4, with the initial processing and delivery of the 3sHealth volume. As anticipated, transition and start-up costs associated with the new facility were incurred during Q3 and Q4, which negatively impacted the EBITDA margin.

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 excess 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. 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 71.9% of its revenues in the quarter were from large publicly funded healthcare customers which are geographically diversified across multiple provinces;
- At December 31, 2015, K-Bro had unutilized borrowing capacity of $46.0 million or 92.0% of the revolving credit line available; and,
- K-Bro's prudent approach to managing capital has added cash flow and liquidity to the Corporation, thereby improving its ability to withstand the turmoil in the national and global capital markets.

KEY PERFORMANCE DRIVERS

K-Bro's key performance drivers focus on growth, profitability, stability and cost containment in order to maintain dividends and maximize Shareholder value. The following outlines our results on a period-to-period comparative basis in each of these areas:

(thousands, except percentages)

Category	Indicator	Q4 2015	Q4 2014	YTD 2015	YTD 2014
Growth	EBITDA[(1)]	**-2.5%**	16.8%	**3.4%**	12.5%
	Revenue	**11.5%**	4.5%	**5.9%**	4.0%
	Distributable cash flow	**-6.2%**	3.2%	**5.6%**	9.7%
Profitability	EBITDA[(1)]	**$ 6,173**	$ 6,333	**$ 27,140**	$ 26,241
	EBITDA margin	**16.4%**	18.7%	**18.8%**	19.2%
	Net earnings	**$ 2,158**	$ 3,083	**$ 12,068**	$ 12,198
Stability	Debt to total capitalization[(2)]	**2.0%**	0.0%	**2.0%**	0.0%
	Unutilized line of credit	**$ 46,001**	$ 38,350	**$ 46,001**	$ 38,350
	Payout ratio	**52.1%**	45.2%	**44.8%**	42.0%
	Dividends declared per share	**$ 0.300**	$ 0.300	**$ 1.200**	$ 1.183
Cost containment	Wages and benefits	**46.0%**	44.8%	**45.1%**	44.8%
	Utilities	**6.3%**	6.4%	**6.1%**	6.5%
	Expenses included in EBITDA	**83.6%**	81.3%	**81.2%**	80.8%

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

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

OUTLOOK

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

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

RESULTS OF OPERATIONS

Quarterly Financial Information

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

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	**27,100**	23,978	24,005	23,857	23,848	23,068	23,330	22,641
Hospitality revenue	**10,580**	13,722	11,332	9,963	9,945	12,960	11,018	9,630
Total revenue	**37,680**	37,700	35,337	33,820	33,793	36,028	34,348	32,271
Expenses included in EBITDA	**31,507**	30,123	28,251	27,516	27,460	28,411	27,344	26,984
EBITDA[(1)]	**6,173**	7,577	7,086	6,304	6,333	7,617	7,004	5,287
EBITDA as a % of revenue	**16.4%**	20.1%	20.1%	18.6%	18.7%	21.1%	20.4%	16.4%
Depreciation and amortization	**2,859**	2,326	2,219	2,178	2,255	2,273	2,216	2,194
Finance expense (recovery)	**156**	(128)	177	(98)	103	125	196	169
Loss (gain) on disposal of equipment	**172**	4	14	-	(30)	37	12	28
Earnings before income taxes	**2,986**	5,375	4,676	4,224	4,005	5,182	4,580	2,896
Income tax expense	**828**	1,523	1,637	1,205	922	1,431	1,247	865
Net earnings	**2,158**	3,852	3,039	3,019	3,083	3,751	3,333	2,031
Net earnings as a % of revenue	**5.7%**	10.2%	8.6%	8.9%	9.1%	10.4%	9.7%	6.3%
Basic earnings per share	**0.272**	0.486	0.384	0.381	0.433	0.533	0.474	0.289
Diluted earnings per share	**0.271**	0.483	0.382	0.380	0.432	0.529	0.471	0.287
Total assets	**143,023**	145,106	135,516	133,229	132,638	117,983	117,984	113,824
Total long-term financial liabilities	**8,958**	6,776	6,361	5,892	5,815	28,267	29,081	25,066
Funds provided by operations	**3,897**	5,733	3,773	4,214	9,401	7,787	2,705	4,016
Long-term debt	**2,349**	-	-	-	-	21,908	22,587	18,609
Dividends declared per share	**0.300**	0.300	0.300	0.300	0.300	0.300	0.296	0.288

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

Revenue, Earnings and EBITDA

For the year ended December 31, 2015, K-Bro's revenue was $144.5 million, compared to $136.4 million in the prior year. This represents a 5.9% increase in revenue and is due to a combination of the additional volume from the 3sHealth region associated with the commissioning of the new facility in Regina, organic growth at existing customers across the plants, and new customers secured in existing markets. In 2015 approximately 68.5% of K-Bro's revenue was generated from healthcare institutions compared to 68.1% in 2014.

EBITDA was $27.1 million in 2015, compared to $26.2 million in 2014. This 3.4% increase was predominantly a result of the factors discussed above, offset by transition costs related to the new Regina facility and rising labour costs from incremental increases in the wage rate.

Net earnings decreased in 2015 to $12.1 million from $12.2 million in 2014. Net earnings as a percentage of revenue decreased from 8.9% in 2014 compared to 8.3% in 2015. This margin decrease is primarily due to the flow through items in EBITDA discussed above offset by the higher tax rate in Alberta.

Operating Expenses

Wages and benefits increased to $65.2 million in 2015 from $61.2 million in 2014, and increased as a percentage of revenue from 44.8% in 2014 compared to 45.1% in 2015. This 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.

Linen expenses increased to $15.0 million in 2015 from $14.4 in 2014, and decreased as a percentage of revenue from 10.6% in 2014 compared to 10.4% in 2015. The increase in costs is primarily due to the additional linen required for the 3sHealth volume.

Utility costs decreased to $8.8 million compared to $8.9 million in 2014 and decreased as a percentage of revenue from 6.5% in 2014, compared to 6.1% in 2015, due to lower utility rates, offset by higher costs associated with the transition to the new Regina facility.

Delivery costs increased to $7.0 million and to 4.8% as a percentage of revenues compared to $6.2 million and 4.6% in 2014. The increase is a result of increased business activity and transition costs associated with the commissioning of the new Regina facility.

Occupancy costs increased to $5.2 million and to 3.6% as a percentage of revenue, compared to $4.8 million and 3.5% in 2014. 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 $4.2 million and to 2.9% as a percentage of revenues compared to $3.6 million and 2.7% in 2014. The increase is a result of increased business activity and transition costs associated with the commissioning of the new Regina facility.

Repairs and maintenance as a percentage of revenue remained stable in 2015 compared to 2014.

Corporate costs increased in 2015 by $0.6 million and to 5.1% as a percentage of revenues compared to 5.0% in 2014. The increase is due to an increase in professional costs to support potential business developments, increased corporate travel costs incurred to support the new Regina plant transition, and an increase in the management personnel to support the company's growth and business strategies across the plants.

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

Finance expense decreased to $0.1 million in 2015 from $0.6 million in 2014, based off the reduced utilization of the revolving credit facility during the year.

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

LIQUIDITY AND CAPITAL RESOURCES

In 2015 cash generated by operating activities was $17.6 million, compared to cash generated by operating activities of $23.9 million during 2014. The change in cash from operations is due to the change in working capital items driven mainly from purchases related to the new Regina facility.

During 2015, cash used by financing activities amounted to $7.2 million compared to cash provided by financing activities of $5.1 million in 2014. Financing activities in 2015 consisted of dividends paid to Shareholders of $9.6 million, and net proceeds from the revolving credit facility of $2.3 million.

Investing activities resulted in a use of cash of $24.1 million in 2015 compared to $15.2 million in 2014. Investing activities for 2015 related primarily to the construction of the new Regina facility.

Contractual Obligations

At December 31, 2015, 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	$	2,349	-	2,349	-	-
Operating leases and utility commitments	$	30,010	6,367	9,122	4,330	10,191
Linen purchase obligations	$	5,254	5,254	-	-	-
Property, plant and equipment commitments	$	3,675	3,675	-	-	-

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.

Contractual Obligations entered subsequent to year end include,

a) New Toronto Facility

On February 5, 2016, the Corporation signed a letter of intent ("LOI") with respect to a commercial building lease agreement. The LOI which proposes a 15 year lease, estimated to begin on December 1, 2016, provides the Corporation with approximately 86,448 square feet of space in a building located in Mississauga, Ontario. Base annual rent is initially set at approximately $54 per month. Total base rent payable over the lease period is $10,595. The Corporation has three options to extend the term of the lease for each option for an additional five year period with respect to the entire premises.

On March 8, 2016, the Corporation entered into an agreement for the purchase of plant equipment for the new Toronto facility, for an estimated cost of $18,053. The Corporation intends to have the plant equipment installed and operational before the end of 2016.

b) Montreal Plant Equipment Purchase

On February 23, 2016, the Corporation entered into an agreement for the purchase of a new Tunnel for the Montreal facility, for an estimated cost of $753. The Corporation intends to replace an existing tunnel with this purchase, and to have the new tunnel installed and operational before the end of 2016.

Financial Position

(thousands, except percentages)		**2015**		2014
Long-term debt	**$**	**2,349**	$	-
Shareholders' equity		**113,240**		109,438
Total capitalization	**$**	**115,589**	$	109,438
Debt to total capitalization (see *Terminology* for definition)		**2.0%**		0.0%

For the year ended December 31, 2015, the Corporation had a debt to total capitalization of 2.0%, unused revolving credit facility of $46.0 million and has not incurred any events of default under the terms of its credit facility agreement.

As at December 31, 2015, the Corporation had net working capital of $8.7 million compared to its working capital position of $21.7 million at December 31, 2014. The decrease in working capital is attributable to expenditures associated with the Regina facility.

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

DIVIDENDS

Fiscal Period	Payment Date	# of Shares outstanding	2015 Amount per Share	2015 Total Amount (3)	2014 Amount per Share	2014 Total Amount (1)(2)
January	February 15	7,959,735	$ 0.10000	$ 796	$ 0.09580	$ 680
February	March 15	7,959,735	0.10000	796	0.09580	680
March	April 13	7,959,735	0.10000	796	0.09580	680
Q1			$ 0.30000	$ 2,388	$ 0.28740	$ 2,039
April	May 15	7,959,735	$ 0.10000	$ 796	$ 0.09580	$ 680
May	June 15	7,959,735	0.10000	796	0.10000	710
June	July 15	7,985,713	0.10000	799	0.10000	713
Q2			$ 0.30000	$ 2,391	$ 0.29580	$ 2,102
July	August 14	7,985,713	$ 0.10000	$ 799	$ 0.10000	$ 713
August	September 15	7,985,713	0.10000	799	0.10000	712
September	October 15	7,985,713	0.10000	799	0.10000	712
Q3			$ 0.30000	$ 2,396	$ 0.30000	$ 2,137
October	November 13	7,985,713	$ 0.10000	$ 799	$ 0.10000	$ 712
November	December 15	7,985,713	0.10000	799	0.10000	712
December	January 15	7,985,713	0.10000	799	0.10000	796
Q4			$ 0.30000	$ 2,396	$ 0.30000	$ 2,220
YTD			$ 1.20000	$ 9,570	$ 1.18320	$ 8,498

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

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

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

For the year ended December 31, 2015, the Corporation declared a $1.200 per share dividend compared to $2.693 per Share of Distributable Cash Flow (see *Terminology*). The actual payout ratio was 44.8%.

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)	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash provided by operating activities	**$ 3,897**	$ 5,733	$ 3,773	$ 4,214	$ 9,401	$ 7,787	$ 2,705	$ 4,016
Deduct (add):								
Net changes in non-cash working capital items[1]	**(1,387)**	(1,193)	(2,302)	(1,439)	3,878	1,544	(2,995)	(1,087)
Share-based compensation	**262**	329	334	379	306	319	102	372
Maintenance capital expenditures[2]	**420**	226	268	365	309	127	491	315
Distributable cash flow	**$ 4,602**	$ 6,371	$ 5,473	$ 4,909	$ 4,908	$ 5,797	$ 5,107	$ 4,416
Dividends declared	**2,396**	2,396	2,391	2,388	2,220	2,137	2,102	2,039
Dividends declared per share	**0.300**	0.300	0.300	0.300	0.300	0.300	0.296	0.288
Payout ratio[3]	**52.1%**	37.6%	43.7%	48.6%	45.2%	36.7%	41.0%	46.2%
Weighted average shares outstanding during the period, basic	**7,930**	7,922	7,916	7,914	7,113	7,042	7,034	7,032
Weighted average shares outstanding during the period, diluted	**7,948**	7,974	7,966	7,942	7,134	7,096	7,083	7,072
Trailing-twelve months ("TTM")								
Distributable cash flow	**21,355**	21,661	21,086	20,721	20,228	20,077	18,482	18,215
Dividends	**9,570**	9,394	9,136	8,847	8,498	8,317	8,219	8,153
Payout ratio[3]	**44.8%**	43.4%	43.3%	42.7%	42.0%	41.4%	44.5%	44.8%

(1) Net changes in non-cash working capital is excluded from the calculation as management believes it would introduce significant cash flow variability and affect underlying cash flow from operating activities. Significant variability can be caused by such things as the timing of receipts (which individually are large because of the nature of K-Bro's customer base and timing may vary due to the timing of customer approval, vacations of customer personnel, etc.) and the timing of disbursements (such as the payment of large volume rebates done once annually). As well, large increases in working capital are generally required when contracts with new customers are signed as linen is purchased and accounts receivable increase. Management feels that this amount should be excluded from the distributable cash flow calculation.

(2) Maintenance capital expenditures include costs required to maintain or replace assets which do not have a discrete return on investment.

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

OUTSTANDING SHARES

At December 31, 2015, the Corporation had 7,985,713 common shares outstanding. Basic and diluted weighted average number of common shares outstanding for 2015, were 7,920,609 and 7,930,492 respectively (7,090,937 and 7,111,232 respectively, for the comparative 2014 periods).

In accordance with the LTI plan and in conjunction with the performance of the Corporation in the 2014 fiscal year, on May 6, 2015 the Compensation, Nominating and Corporate Governance Committee of the Board of Directors approved LTI compensation of $1.4 million (2014 – $1.4 million) to be paid as shares issued from treasury. As at December 31, 2015, the value of the shares held in trust by the LTI trustee was $2.0 million (December 31, 2014 – $2.1 million) which was comprised of 39,716 in unvested common shares (December 31, 2014 – 45,368) with a nil aggregate cost (December 31, 2014 – $nil).

As at March 10, 2016 there were 7,985,713 common shares issued and outstanding including 39,716 shares issued but held as unvested treasury shares.

RELATED PARTY TRANSACTIONS

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by Mr. Matthew Hills, a director of the Corporation. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms. For the year ended December 31, 2015, the Corporation incurred fees totaling $138,000 (2014 – $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,		Twelve months ended December 31,	
(thousands)	**2015**	2014	**2015**	2014
Net earnings	**$ 2,158**	$ 3,083	**$ 12,068**	$ 12,198
Add:				
Income tax expense	**828**	922	**5,193**	4,465
Finance expense	**156**	103	**107**	593
Depreciation of property, plant and equipment	**2,353**	1,725	**7,573**	6,817
Amortization of intangible assets	**506**	530	**2,009**	2,121
Loss (gain) on disposal of property, plant and equipment	**172**	(30)	**190**	47
EBITDA	**$ 6,173**	$ 6,333	**$ 27,140**	$ 26,241

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 December 31, 2015, the Corporation has not entered into any off balance sheet arrangements.

CHANGES IN ACCOUNTING POLICIES

The Corporation has prepared its December 31, 2015 audited consolidated financial statements in accordance with IFRS. See Note 2 of the Corporation's audited annual Consolidated Financial Statements for more information regarding the significant accounting principles used to prepare the Consolidated Financial Statements.

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

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

The Corporation has made a reclassification that affects some of the costs related to materials and supplies and corporate costs. The reason is to give a true and fair view based off the intended nature of the costs, which have been emphasized with the strategic growth of the company. In order to maintain comparability, the financial statements for 2014 and 2015 have been adjusted. The reclassification does not affect EBITDA or net earnings.

	2015		
	Before Reclassification	Reclassification	After Reclassification
Materials and supplies	$ 5,198	$ (994)	$ 4,204
Corporate	6,376	994	7,370
Total	$ 11,574	$ -	$ 11,574

	2014		
	Before Reclassification	Reclassification	After Reclassification
Materials and supplies	$ 4,474	$ (844)	$ 3,630
Corporate	5,949	844	6,793
Total	$ 10,423	$ -	$ 10,423

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.

FINANCIAL INSTRUMENTS

K-Bro's financial instruments at December 31, 2015 consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable and long-term debt. The Corporation does not enter into financial instruments for trading or speculative purposes. Financial assets are either classified as available for sale, held to maturity, trading or loans and receivables. Financial liabilities are recorded at amortized cost. Initially, all financial assets and financial liabilities must be recorded on the balance sheet at fair value. Subsequent measurement is determined by the classification of each financial asset and liability. Unrealized gains and losses on financial assets that are held as available for sale are recorded in other comprehensive income until realized, at which time they are recorded in the consolidated statement of earnings. All derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value in the consolidated balance sheet. Transaction costs related to financial instruments are capitalized and then amortized over the expected life of the financial instrument using the effective interest method.

Derivative financial instruments are utilized by the Corporation to manage cashflow risk against the volatility in interest rates on its long-term debt and foreign exchange rates on its equipment purchase commitments. The Corporation typically does not utilize derivative financial instruments for trading or speculative purposes. The Corporation has a floating interest rate debt that gives rise to risks that its earnings and cash flows may be adversely impacted by fluctuations in interest rates. In order to manage these risks, the Corporation may enter into interest rate swaps, forward contracts on foreign currency, utilities and textiles or option contracts. The Corporation has entered into several electrical and natural gas contracts at December 31, 2015. 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, 2015, there are no material changes in the Corporation's risks or risk management activities since December 31, 2014. The Corporation's results of operations, business prospects, financial condition, cash dividends to Shareholders and the trading price of the Corporation's Shares are subject to a number of risks. These risk factors include: dependence on long-term contracts and the associated renewal risk thereof; the effects of market volatility and uncertainty; potential future tax changes; the competitive environment; our ability to acquire and successfully integrate and operate additional businesses; utility costs; the labour markets; foreign currency; the fact that our credit facility imposes numerous covenants and encumbers assets; and, environmental matters.

For a discussion of these risks and other risks associated with an investment in Corporation Shares, see *Risk Factors – Risks Related to K-Bro and the Laundry and Linen Industry* detailed in the Corporation's Annual Information Form that is available at www.sedar.com.

CONTROLS AND PROCEDURES

In order to ensure that information with regard to reports filed or submitted under securities legislation present fairly in all material respects the financial information of K-Bro, management, including the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), are responsible for establishing and maintaining disclosure controls and procedures, as well as internal control over financial reporting.

Disclosure Controls and Procedures

The Corporation has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements of K-Bro was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Corporation's CEO and CFO have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2015, 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, 2015 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, 2015, 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 »).