2015 Annual Report

Depend

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K-Bro is Canada's
largest healthcare &
hospitality laundry
& linen processor
with facilities all
across the country.

Vancouver
Victoria
Edmonton
Calgary
Regina
Québec City
Montréal
Toronto

Clean Green TRSA Certified

President's Message

2015 was another year of opportunities and growth for K-Bro, and we enter 2016 optimistic and excited about our future. As always, our success is based on our belief that every day we must earn the respect and faith of our customers by providing them with the highest-quality and highest-value service. This is at the heart of K-Bro's culture, and we work hard to be rewarded with the continuing confidence of our many healthcare and hospitality customers.

During 2015, we opened our new plant in Regina from which we are processing the entire province of Saskatchewan under a new 10-year contract. We also began planning for much larger plants that we will build in Vancouver and Toronto. Our valued customers expect us to continue making the investments that will improve quality and value, and their loyalty in renewing long-term contracts with us enables us to continue making these long-term investments. We enter 2016 with a significant portion of our healthcare volume under long-term contracts, typically for up to 10 years.

While new facilities always require a lot of our time and attention, our nearly 1,800 employees continued to deliver excellent service for our customers and strong results for our shareholders. 2015 was a year of success:

- Total shareholder return of 13.1%;
- Revenue of $145 million, a 5.9% growth rate over 2014
- EBITDA of $27.1 million, a 3.4% growth rate over 2014
- $9.6 million in dividends **($1.20/share)**;
- Market capitalization of $407 million, with total debt of only $2.3mm.

We know that we must constantly adapt to changing customer needs, and we will always invest in our valued employees and our plants so that we continue to be the market leader in our evolving industry. We are proud to be Canada's largest laundry and linen service provider, and we are dedicated to improving every single day.

Our nearly 1,800 dedicated employees and our management team thank you for your continued support of K-Bro, and we look forward to a bright and prosperous future.

We will always invest in our valued employees and our plants so that we continue to be the market leader in our evolving industry.

Linda McCurdy
President & CEO

We face meaningful new opportunities in 2016 and beyond, and our balance sheet and capital strategy will enable us to capture those opportunities.

Chairman's Message

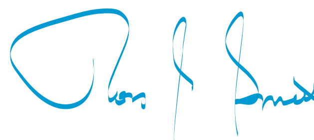
2015 was another year of strong financial performance for K-Bro.

We are pleased that our revenue and EBITDA both grew in 2015, while our debt levels remained near $0 and our stock price increased 11%. We believe that we face meaningful new opportunities in 2016 and beyond, and our balance sheet and capital strategy will enable us to capture those opportunities.

The Board of Directors of K-Bro remains dedicated to sound corporate governance, a proactive approach to risk management, and a focus on delivering continued growth and profitability for our shareholders.

On behalf of K-Bro and the Board, I want to express my appreciation for the confidence and loyalty that our customers, employees and shareholders continue to show to us every day. We will continue to strive to earn your trust every day.

Ross Smith
Chairman



Officers & Directors

K-Bro is the largest healthcare and hospitality laundry and linen processor in Canada. K-Bro operates nine facilities in eight major cities across Canada, and two distribution centres, providing management services and laundry processing of hospitality, healthcare and specialty linens. Our core values are central to our reputation, our quality is industry-leading, and our ability to deliver on commitments to customers is second to none.

K-Bro provides the vital products and services that help people heal, travel, live, and play. We're helping hospitals and extended care centres care for the young, old and vulnerable in environmentally responsible ways. Our responsibility also extends to ensuring that we have a safe culture at K-Bro. As our society grows, we integrate our commitment to responsibility into our new businesses, employees and the communities in which we live and work.

K-Bro's core mission is to provide the highest value linen service for our customers in the ***most environmentally friendly and cost conscious way.***

From left to right: ***Ross Smith, Linda McCurdy, Kristie Plaquin, Michael Percy, Sean Curtis, Steven Matyas, Matthew Hills,***

By expanding our capabilities into new markets, we have opportunities to leverage our operating strengths, grow our revenue, and further enhance operating margins, ***ensuring consistent value creation for stakeholders.***

Linda McCurdy
President and Chief Executive Officer

K-Bro has a stable business model with strong fundamentals *that support our market valuation and reliable shareholder dividends.*

Kristie Plaquin
Chief Financial Officer

In 2015 we opened our modern new Regina facility and began planning for much ***larger state-of-the-art plants in Vancouver and Toronto.***

Sean Curtis
Senior Vice-President and General Manager

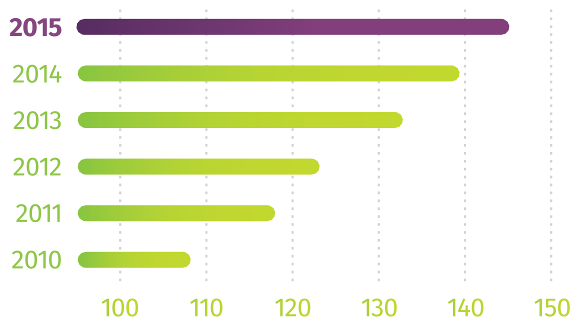
Ron Graham, Kevin McElgunn, Sylvain Tremblay, Jessica Lévesque, Jeff Gannon, Kevin Stephenson, Sean Jackson, Jerry Ostrzyzek.

We are focused on delivering the best possible value to our customers, which in turn will enable K-Bro to continue to show strong financial results.

Financial Highlights

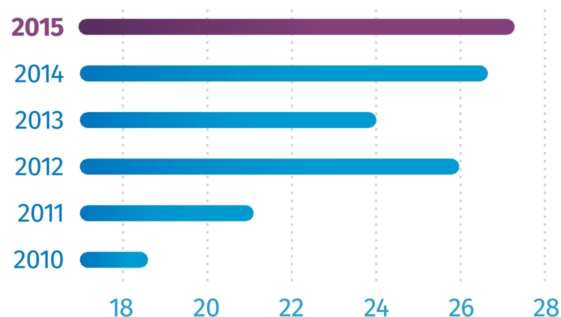
The following unaudited financial data has been derived from K-Bro's consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP. The information set forth below should be read in conjunction with the Management's Discussion & Analysis, Consolidated Financial Statements and Notes sections of this Annual Report.

Revenue



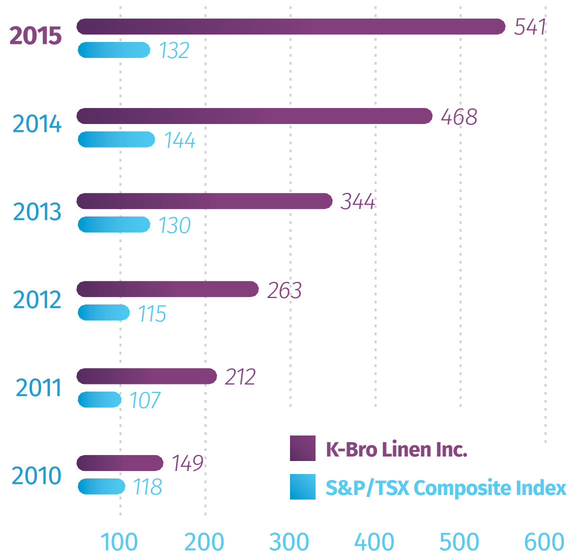
Revenue *(In millions of Canadian dollars)*
Years ended December 31

EBITDA



EBITDA *(In millions of Canadian dollars)*
Years ended December 31

Total Shareholder Return*



** $100 investment in 2009*

Revenue

up **5.9%**

EBITDA

up **3.4%**

Total Shareholder Return

up **15.6%**

[1]The total shareholder return graph reflects the total cumulative return, assuming reinvestment of all dividends, of $100 invested on December 31, 2009 in each of the Shares of the Corporation and the S&P/TSX Composite (TRIV) Index.

[2]The year-end values of each investment shown on the total shareholder return graph are based on share price appreciation plus dividend reinvestment.

In order to be successful, a company must have a vision. We continue to be committed to remaining as Canada's premier linen processing company. We focus on businesses that we know and understand – laundry and linen processing – in regions where we have an existing competitive advantage or can develop one. Long-term contracts supported by an experienced workforce and large scale assets are the priority – relationships coupled with assets that provide attractive and sustainable returns.

Over the past decade, K-Bro has invested over $110 million in high quality plants, investments that have allowed the company to move forward in achieving its vision. Today, we play a significant role in the provision of high quality healthcare and also in business and leisure travel markets.

We are the largest healthcare and hospitality laundry & linen processor in Canada.

In aggregate, our nine plants provided services to more than 1,700 customers and employed almost 1,800 employees in 2015. At December 31, 2015, total assets were $143 million, equity was $113.2 million and market capitalization was $407 million.

We are

Dependable.

Diversified and integrated services

We provide critical services, support and management of linen requirements that address each and every one of our customers' needs.

Strategically positioned

K-Bro has nine plants and two distribution centres located in ten different cities, which ensures our ability to provide uninterrupted service in the wake of disasters, pandemics or other adversity.

Long-term stable contracts

By anticipating our customers' needs, delivering consistently dependable service and acting with integrity, K-Bro has developed long-term relationships with its customers.

Committed workforce

Our corporate culture enables us to attract and retain quality laundry staff and our national presence provides opportunities for career advancement. Six members of our senior management team commenced their careers with K-Bro and have an average tenure in excess of 20 years.

Single source for customers

K-Bro is able to deliver total linen management services, including laundering, drying, folding, quota cart development, sterilization, and more that focuses on efficiencies and cost savings. We are one of the largest consumers of linens and textiles in Canada. We leverage our market position to drive savings for our customers. K-Bro works in partnership with our clients to reduce their linen consumption.

One of our key strategies for growth is to pursue opportunities for expansion through acquisition. We follow a strict set of criteria when evaluating another organization's potential, examining every facet of a target company – does it open up a new or strategically placed geographic market or market niche for us? Is there a potential for growth in the market it serves? Will we be able to build on relationships the company already has in place? Can we build on an already-existing base of business? Does it enhance our resources overall?

Taking advantage of relationships already in place includes maintaining the existing labour and management of a company. The ability and commitment demonstrated by staff members is a factor in our decision-making process for acquisitions. The bottom line is that we want profitable, dependable operations where we can bring our expertise and resources to grow the existing base of business. We continue to review and pursue accretive opportunities in new markets and we believe that such opportunities may be available in the future to further add to our growth.

In our industry, we're dependent on our reputation, resources, and track record as we develop relationships with potential and new clients and compete for contracts. These factors are also critical in maintaining stable, responsive, and loyal relationships with our existing customers.

Sean Curtis
Senior VP & GM

2016 will be an exciting year for K-Bro as we begin construction of two new facilities in Toronto and Vancouver. *These new state-of-the-art facilities will ensure we continue as leaders in our industry.*

At K-Bro, we innovate and develop new processes and systems, and further refine business delivery and practices.

In 2015, K-Bro continued building on the successes we've had in our decades of experience as leaders in our sector. We obtained significant new business from our competitors in important locations. In British Columbia we were successful in securing six additional healthcare customers under long term contract for whom we will begin transitioning in mid 2016 and into 2017. In Saskatchewan we began service to approximately 150 healthcare sites. In Quebec we added three new hospitality customers and in British Columbia, Ontario and Alberta we added one new hotelier in each market and extended agreements with several more.

Each new customer was a victory for the entire K-Bro team and a reflection of the company as a whole, rather than any individual. The qualities that contribute to our success are the same ones that define us as leaders in customer service – an impeccable and dependable record, comprehensive service programs, financial stability, competitive costs, experience in transitioning large accounts, and having the resources to support growth, including the ability to purchase linen and equipment in anticipation of higher volume.

Our policy at K-Bro has always been one of proactive response. In order to meet our goal of being the absolute best laundry and linen services provider in the country, we continually review our service offerings, adding to our menu and providing more comprehensive service capabilities than other linen companies. We watch our industry and think ahead to strategically address the future needs of the markets we serve. Our established relationships and experience contribute to our thinking – our clients talk to us not only about their present needs, but about the directions they see themselves going in. They depend on the knowledge we've accumulated over our history.

During 2015 we completed construction of our new Regina processing facility and began planning for the construction of our new Toronto and Vancouver facilities.

K-Bro's value-added services provide a 'one-stop shop' for linen services, and currently include:

- Exchange cart preparation
- Delivery of carts to user wards and departments
- Reusable OR linen and pack rental (KOR services)
- Distribution and control of uniforms
- Personal clothing services
- Customer service programs
- Linen purchase and supply
- Linen inventory management reports and services
- Sterilization of operating room linen packs

At K-Bro, we will innovate and develop new processes and systems, and further refine business delivery and practices. When we launched our company on the public markets, we stated that we were ready for whatever lay ahead of us. As the events of the next ten years unfolded, our readiness contributed to our success in dependability and growth. The hands-on nature of our management team and established relationships with open lines of communication with our customers is the very source of our advantage. ***We are dependable.***

The following selected unaudited financial data has been derived from K-Bro's consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP. The information set forth below should be read in conjunction with the Management's Discussion & Analysis, Consolidated Financial Statements and Notes sections of this Annual Report.

($ Thousands of Canadian dollars, except per share data and percentages)

Years ended December 31[1]	**2015**	2014	2013	2012	2011	2010
Income Statement Data						
Revenue	144,537	136,440	131,202	126,290	116,859	104,051
EBITDA	27,140	26,241	23,317	24,517	19,946	16,877
EBITDA(%)	18.8	19.2	17.8	19.4	17.1	16.2
Net earnings	12,068	12,198	10,336	11,149	7,928	6,953
Net earnings per share *(Diluted)*	1.52	1.72	1.47	1.59	1.14	1.00
Balance Sheet Data						
Working Capital	8,670	21,717	9,434	8,064	7,245	8,664
Long-Term Debt	2,349	0	19,640	5,818	6,095	10,763
Other Financial Data						
Distributable cash per share	2.69	2.85	2.61	2.72	2.40	2.15
Payout Ratio(%)	44.8	42.0	44.2	41.8	45.9	51.4
Price to earnings multiple *(12 month trailing)*	33.5	26.9	27.0	18.1	19.6	18.3
Price to EBITDA multiple *(12 month trailing)*	14.9	12.5	12.0	8.2	7.8	7.6
Return on shareholders' equity(ROE)(%)	10.7	11.1	14.5	16.5	12.6	11.4
Total Shareholder return, YTD(%)	13.1	19.4	41.2	34.9	27.5	43.9
Total Shareholder return, 5 yrs(%)	155.0	182.9	235.2	253.8	121.1	146.7
Market capitalization	406,872	367,023	280,976	203,613	155,821	126,866
Share price:						
High	56.99	47.90	40.50	30.18	22.98	19.29
Low	43.00	36.90	28.38	21.20	17.28	13.02
Close	50.95	46.11	39.60	28.86	22.24	18.30

As events have unfolded since entering the public market, our readiness has contributed to our success in dependability and growth.

[1] K-Bro's IFRS transition date was January 1, 2010; accordingly 2010 figures have been restated; earlier fiscal periods are presented under Canadian GAAP.

Management's Discussion & Analysis

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Management's Discussion & Analysis of Financial Condition & 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.

Every day we must earn the respect and faith of our customers with the highest quality & highest value service.

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 centres 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.

Revenue up

11.5%

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.

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.

K-Bro is committed to building value for our shareholders, our customers & our employees.

Selected Annual Financial Information

($ Thousands of Canadian dollars, except share & 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 & 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 centres. 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 of Canadian dollars, 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

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.

[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.

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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:

($ Thousands of Canadian dollars, except per share data and percentages)

	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 and amortization). See Terminology.

2015 Revenue

144,537 M

Healthcare
98,940

Hospitality
45,597

($ In thousands)

Healthcare
92,887

Hospitality
43,553

($ In thousands)

2014 Revenue

136,440 M

Revenue, EBITDA, Adjusted EBITDA & Earnings

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 & 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:

	Payments due by Period				
($ Thousands of Canadian dollars)	***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. Montréal Plant Equipment Purchase

On February 23, 2016, the Corporation entered into an agreement for the purchase of a new Tunnel for the Montréal 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 of Canadian dollars, 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 ($)	2015 Total[3] Amount ($)	2014 Amount per Share ($)	2014 Total[1][2] Amount ($)
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**

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.

[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 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.

Distributable Cash Flow

(See Terminology)

(All amounts in this section in thousands of Canadian dollars, 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 of Canadian dollars, except 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.

EBITDA

+3.4%

2015 **27,140**

2014 **26,241**

($ In thousands)

($ Thousands of Canadian dollars)	*3 Months ended Dec. 31* **2015**	*2014*	*Year ended Dec. 31* **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 judgments 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			*2014*		
($ Thousands of Canadian dollars)	***Before***	***Reclassification***	***After***	*Before*	*Reclassification*	*After*
Materials and supplies	5,198	(994)	4,204	4,474	(844)	3,630
Corporate	6,376	994	7,370	5,949	844	6,793
Total	**11,574**	**-**	**11,574**	**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 cash flow 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 »).

Consolidated
Financial
Statements

K·BRO

K·BRO

Independent Auditor's Report

March 10, 2016

To the Shareholders of K-Bro Linen Inc.

We have audited the accompanying consolidated financial statements of K-Bro Linen Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of K-Bro Linen Inc. and its subsidiaries as at December 31, 2015 and 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

PricewaterhouseCoopers LLP
TD Tower, 10088 102 Avenue NW, Suite 1501
Edmonton, Alberta, Canada T5J 3N5

phone **1 780 441 6700**
fax **1 780 441 6776**
website **pwc.com/ca**

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Consolidation Statements of Financial Position

($ Thousands of Canadian dollars)	December 31, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	-	13,744
Accounts receivable	17,155	14,560
Prepaid expenses and deposits	1,061	1,009
Linen in service *(note 6)*	11,279	9,794
Total	**29,495**	**39,107**
Property, plant and equipment *(note 7)*	88,141	66,319
Intangible assets *(note 8)*	4,931	6,756
Goodwill *(note 9)*	20,456	20,456
Assets Total	**143,023**	**132,638**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *(note 10)*	19,835	16,346
Income taxes payable	191	243
Dividends payable to shareholders	799	796
Total	**20,825**	**17,385**
Long-term debt *(note 11)*	2,349	-
Unamortized lease inducements *(note 13)*	696	850
Deferred income taxes *(note 14)*	5,913	4,965
Liabilities Total	**29,783**	**23,200**
Shareholders' Equity		
Share capital	108,079	106,870
Contributed surplus	1,737	1,642
Retained earnings	3,424	926
Shareholders' Total	**113,240**	**109,438**
Contingencies and commitments *(note 15)*	**143,023**	**132,638**

Approved on behalf of the Corporation.

Ross Smith
Chairman

Matthew Hills
Director

The accompanying notes are an integral part of these consolidated financial statements.

Consolidation Statements of Earnings & Comprehensive Income

($ Thousands of Canadian dollars, except share and per share amounts)

Years ended December 31	2015	2014
Revenue	**144,537**	**136,440**
Expenses		
Wages and benefits	65,213	61,162
Linen *(note 6)*	15,041	14,438
Utilities	8,788	8,898
Delivery	7,001	6,246
Occupancy costs	5,183	4,800
Materials and supplies *(note 27)*	4,204	3,630
Repairs and maintenance	4,597	4,232
Corporate *(note 27)*	7,370	6,793
Total	**117,397**	**110,199**
EBITDA *(note 22)*	**27,140**	**26,241**
Other expenses		
Depreciation of property, plant and equipment *(note 7)*	7,573	6,817
Amortization of intangible assets *(note 8)*	2,009	2,121
Finance expense *(note 12)*	107	593
Loss on disposal of property, plant and equipment	190	47
Total	**9,879**	**9,578**
Earning before income taxes	**17,261**	**16,663**
Current income tax expense	4,245	4,081
Deferred income tax expense	948	384
Income tax expense	**5,193**	**4,465**
Net earnings and Comprehensive income	**12,068**	**12,198**
Net earnings per share: *(note 17)*		
Basic	1.52	1.72
Diluted	1.52	1.72
Weighted average number of shares outstanding:		
Basic	7,920,609	7,090,937
Diluted	7,930,492	7,111,232

The accompanying notes are an integral part of these consolidated financial statements.

Consolidation Statements of Changes in Equity

($ Thousands of Canadian dollars)	*Total Share Capital*	*Contributed Surplus*	*Retained Earnings*	*Total Equity*
As at January 1, 2015	**106,870**	**1,642**	**926**	**109,438**
Net earnings	-	-	12,068	12,068
Dividends declared *(note 19)*	-	-	(9,570)	(9,570)
Employee share based compensation expense	-	1,304	-	1,304
Shares vested during the year	1,209	(1,209)	-	-
As at December 31, 2015	**108,079**	**1,737**	**3,424**	**113,240**

($ Thousands of Canadian dollars)	*Total Share Capital*	*Contributed Surplus*	*Retained Earnings (deficit)*	*Total Equity*
As at January 1, 2014	**72,158**	**1,732**	**(2,774)**	**71,116**
Net earnings	-	-	12,198	12,198
Net proceeds from common shares issued *(note 16)*	33,523	-	-	33,523
Dividends declared *(note 19)*	-	-	(8,498)	(8,498)
Employee share based compensation expense	-	1 ,136	-	1,136
Cash settled employee share based compensation	-	(37)	-	(37)
Shares vested during the year	1,189	(1,189)	-	-
As at December 31, 2014	**106,870**	**1,642**	**926**	**109,438**

K-Bro provides the vital products and services that help people ***heal, travel, live, and play.***

The accompanying notes are an integral part of these consolidated financial statements.

Consolidation Statements of Cash Flow

($ Thousands of Canadian dollars)

Years ended December 31	**2015**	2014
Operating Activities		
Net earnings	**12,068**	**12,198**
Depreciation of property, plant and equipment *(note 7)*	7,573	6,817
Amortization of intangible assets *(note 8)*	2,009	2,121
Lease inducements, net of amortization	(154)	(97)
Cash settled employee share based compensation	-	(37)
Employee share based compensation expense	1,304	1,136
Loss on disposal of property, plant and equipment	190	47
Deferred income taxes	948	384
	23,938	**22,569**
Change in non-cash working capital items *(note 20)*	**(6,321)**	**1,340**
Cash provided by operating activities	**17,617**	**23,909**
Financing Activities		
Net proceeds (repayments) of revolving credit facility	2,349	(19,640)
Net proceeds from issuance of common shares *(note 16)*	-	33,072
Dividends paid to shareholders *(note 19)*	(9,567)	(8,382)
Cash (used in) provided by financing activities	**(7,218)**	**5,050**
Investing Activities		
Purchase of property, plant and equipment *(note 7)*	(23,981)	(15,522)
Proceeds from disposal of property, plant and equipment	22	311
Purchase of intangible assets *(note 8)*	(184)	(4)
Cash used in investing activities	**(24,143)**	**(15,215)**
Change in cash and cash equivalents during the year	**(13,744)**	**13,744**
Cash and cash equivalents, beginning of year	**13,744**	**-**
Cash and cash equivalents, end of year	**-**	**13,744**
Supplementary Cash Flow Information		
Interest paid	282	577
Income taxes paid	4,297	3,929

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Statements

($ Thousands of Canadian dollars, except share and per share amounts years ended December 31, 2015 and 2014)

K-Bro Linen Inc. (the "Corporation" or "K-Bro") is incorporated in Canada under the Business Corporations Act (Alberta). The Corporation and its wholly owned subsidiaries provide a range of linen services to healthcare institutions, hotels and other commercial accounts that include the processing, management and distribution of general linen and operating room linen. The Corporation provides services from nine processing facilities in eight major cities across Canada from Victoria, British Columbia to Québec City, Québec and two distribution centres in Saskatchewan.

The Corporation's common shares are traded on the Toronto Stock Exchange under the symbol "KBL". The address of the Corporation's registered head office is 14903 – 137 Avenue, Edmonton, Alberta, Canada.

These audited annual consolidated financial statements (the "consolidated financial statements") were approved and authorized for issuance by the Board of Directors ("the Board") on March 10, 2016.

One
Basis of Presentation

The consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published in the CPA Handbook. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in Note 5.

Two
Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

A. Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments.

B. Principles of Consolidation

The consolidated financial statements include the Corporation, its wholly owned subsidiaries and the long-term incentive plan trust (notes 2(q)(ii)). All inter-company balances and transactions have been eliminated upon consolidation.

C. Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less.

Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value.

D. Linen in Service

Linen in service is stated at cost less accumulated depreciation. The cost is based on the expenditures that are directly attributable to the acquisition of linen, with operating room linen amortized across its estimated service life of 24 months and general linen amortized based on usage which results in an estimated average service life of 24 months.

E. Revenue Recognition

Revenue from linen management and laundry services is primarily based on written service agreements whereby the Corporation agrees to collect, launder, deliver and replenish linens. The Corporation recognizes revenue in the period in which the services are provided.

F. Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be reliably measured. The carrying amount of a replaced part is derecognized. Repairs and maintenance are charged to the statement of earnings during the financial period in which they are incurred.

The major categories of property, plant and equipment are depreciated on a straight-line basis to allocate their cost over their estimated useful lives as follows:

Asset	*Rate*
Buildings	15-25 years
Laundry equipment	7-20 years
Office equipment	2-5 years
Delivery equipment	5 years
Computer equipment	2 years
Leasehold improvements	Lease term

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of earnings and comprehensive income.

G. Impairment of Financial Assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss equal to the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

H. Impairment of Non-Financial Assets

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating unit or "CGU"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The Corporation evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

I. Intangible Assets

Intangible assets are recorded at cost and include customer contracts in progress and related relationships, which are being amortized using the straight-line method over the remaining lives of the related contracts and relationships. Intangible assets which relate to computer software are amortized using the straight-line method over five years when put into service. These estimates are reviewed at least annually and are updated if expectations change as a result of changing client relationships or technological obsolescence.

J. Income Taxes

The tax expense for the year comprises current and deferred tax. Tax is recognized in statement of earnings, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax provision is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date of the taxation authority where the Corporation operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

K. Business Combinations

Business combinations are accounted for using the acquisition method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred.

L. Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their estimated fair values at the acquisition date. Goodwill is allocated as of the date of the business combination. Goodwill is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate a potential impairment.

Goodwill acquired through a business combination is allocated to each CGU, or group of CGUs, that are expected to benefit from the related business combination. A CGU represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

M. Volume Rebates

Certain customers receive a rebate based on specified annual processing volumes. A rebate liability is recorded in the period it is expected that the customer will meet the specified annual volume levels.

N. Earnings Per Share

Basic earnings per share ("EPS") is calculated by dividing net earnings for the period attributable to Shareholders of the Corporation by the weighted average number of Common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of common shares included within the weighted average is computed using the treasury stock method. The Corporation's potentially dilutive Common shares are comprised of long-term incentive plan equity compensation granted to officers and key employees (notes 2(q) (ii)).

O. Foreign Currency Translation

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of earnings within "finance expense".

P. Lease Inducements

Tenant allowances and lease inducements are deferred when credited or received and amortized on a straight-line basis as a reduction of rent expense over the term of the related lease. For lease contracts with escalating lease payments, total rent expense for the lease term is expensed on a straight-line basis over the lease term. The difference between rent expensed and amounts paid is recorded as an increase or deferral in unamortized lease inducements.

Quality, innovation and respect for our customers, employees and communities is at the very centre of everything we have done for the past 62 years.

Q. Employee Benefits

i. Post-employment benefit obligations

The Corporation contributes on behalf of its employees to their individual Registered Retirement Savings Plans subject to an annual maximum of 4% of gross personal earnings. The Corporation accounts for contributions as an expense in the period that they are incurred. The Corporation does not provide any other post-employment or post-retirement benefits.

ii. Existing equity-based compensation plan of the Corporation

On June 16, 2011, the Shareholders of the Corporation approved a new Long-term Incentive Plan ("LTI"). Under the LTI, awards are granted annually in respect of the prior fiscal year to the eligible participants based on a percentage of annual salary. The amount of the award (net of withholding obligations) is satisfied by issuing treasury shares to be held in trust by the trustee pursuant to the terms of the LTI. All awards issued under the provisions of the LTI are recorded as compensation expense.

Subject to the discretion of the Compensation, Nominating and Corporate Governance Committee of the Board of Directors, one-quarter of a Participant's grant will vest on the Determination Date (defined as the first May 15th following the date that the Directors of the Corporation approve the audited consolidated financial statements of the Corporation for the prior year). The remaining three-quarters of the Participant's grant will vest on November 30th following the second anniversary of the Determination Date.

If a change of control occurs, all LTI Shares held by the Trustee in respect of unvested grants will vest immediately. LTI participants are entitled to receive dividends on all common shares granted under the LTI whether vested or unvested. In most circumstances, unvested common shares held by the LTI trustee for a participant will be forfeited if the participant resigns or is terminated for cause prior to the applicable vesting date, and those common shares will be disposed of by the trustee to K-Bro for no consideration and such Common shares shall thereupon be cancelled. If a participant is terminated without cause, retires or resigns on a basis which constitutes constructive dismissal, the participant will be entitled to receive his or her unvested common shares on the regular vesting schedule under the LTI.

R. Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

Transaction costs are recognized immediately in income or are capitalized, depending upon the nature of the transaction and the associated instrument.

Loans, receivables and other liabilities

Loans, receivables and other liabilities are accounted for at amortized cost using the effective interest method.

The Corporation has made the following classifications:

Asset	*Classification*	*Measurement*
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Dividends payable	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Three
Significant Accounting Policies Adopted January 1, 2015

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 judgments 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.

Four
New Standards and Interpretations Not Yet Adopted

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 IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Corporation.

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SENKING MaxiLine

Five
Critical Accounting Estimates and Judgments

The preparation of the Corporation's consolidated financial statements, in conformity with IFRS, requires management of the Corporation to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and judgments have been applied in a manner consistent with prior periods.

The following discusses the most significant accounting judgments and estimates that the Corporation has made in the preparation of the financial statements:

Impairment of Goodwill and Non-Financial Assets

The Corporation reviews goodwill at least annually and other non-financial assets when there is any indication that the asset might be impaired. The Corporation applies judgment in assessing the likelihood of renewal of significant contracts included in the intangible assets described in note 8. The Corporation has estimated the value in use and fair value of CGUs to which goodwill is allocated using discounted cash flow models that required assumptions about future cash flows, margins, and discount rates. Refer to note 9 for more details about methods and assumptions used in estimating net recoverable amount.

Recognition of Rebate Liabilities

In applying its accounting policy for volume rebates, the Corporation must determine whether the processing volume thresholds will be achieved. The most difficult and subjective area of judgment is whether a contract will generate satisfactory volume to achieve minimum levels. Management considers all appropriate facts and circumstances in making this assessment including historical experience, current volumetric run-rates, and expected future events.

Linen in Service

The estimated service lives of linen in service are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits of use.

Management regularly evaluates these estimates and judgments. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Six
Linen in Service

($ Thousands of Canadian dollars)	***2015***	*2014*
Balance, beginning of year	9,794	8,647
Additions	16,526	15,585
Amortization charge	(15,041)	(14,438)
Balance, end of year	11,279	9,794

Seven

Property, Plant & Equipment

	Land	Buildings	Laundry Equip.[1]	Office Equip.	Delivery Equip.	Computer Equip.	Leasehold Improvements	Spare Parts	Total
Year ended, Dec. 31, 2014									
Opening net book amount	125	1,074	42,546	268	491	380	12,278	810	57,972
Additions	2,300	5,692	6,698	77	69	178	502	6	15,522
Disposals	-	-	(295)	-	(63)	-	-	-	(358)
Transfers	-	-	58	-	-	-	-	(58)	-
Depreciation charge	-	(90)	(4,750)	(71)	(80)	(234)	(1,592)	-	(6,817)
Closing net book amount	**2,425**	**6,676**	**44,257**	**274**	**417**	**324**	**11,188**	**758**	**66,319**
At Dec. 31, 2014									
Cost	2,425	7,092	80,023	848	934	2,203	21,010	758	115,293
Accumulated depreciation	-	(416)	(35,766)	(574)	(517)	(1,879)	(9,822)	-	(48,974)
Net book amount	**2,425**	**6,676**	**44,257**	**274**	**417**	**324**	**11,188**	**758**	**66,319**
Year ended, Dec. 31, 2015									
Opening net book amount	2,425	6,676	44,257	274	417	324	11,188	758	66,319
Additions	29	11,638	17,161	164	15	509	74	17	29,607
Disposals	-	-	(138)	-	(74)	-	-	-	(212)
Transfers	-	-	(1,857)	-	-	-	2,205	(348)	-
Depreciation charge	-	(350)	(5,107)	(97)	(92)	(294)	(1,633)	-	(7,573)
Closing net book amount	**2,454**	**17,964**	**54,316**	**341**	**266**	**539**	**11,834**	**427**	**88,141**
At Dec. 31, 2015									
Cost	2,454	18,730	88,858	640	641	1,071	19,823	427	132,644
Accumulated depreciation	-	(766)	(34,542)	(299)	(375)	(532)	(7,989)	-	(44,503)
Net book amount	**2,454**	**17,964**	**54,316**	**341**	**266**	**539**	**11,834**	**427**	**88,141**

[1] Included in laundry equipment are assets under development in the amount of $65 (2014 - $71). These assets are not available for service and accordingly are not presently being depreciated.

[2] The company retired fully depreciated assets with a cost of $11,233 during the year.

Eight
Intangible Assets

($ Thousands of Canadian dollars)	Healthcare Contracts	Hospitality Contracts	Computer Software	Total
Year ended, December 31, 2014				
Opening net book amount	5,705	2,980	188	8,873
Additions	-	-	4	4
Amortization charge	(1,042)	(892)	(187)	(2,121)
Closing net book amount	**4,663**	**2,088**	**5**	**6,756**
At December 31, 2014				
Cost	19,200	8,366	927	28,493
Accumulated amortization	(14,537)	(6,278)	(922)	(21,737)
Net book amount	**4,663**	**2,088**	**5**	**6,756**
Year ended, December 31, 2015				
Opening net book amount	4,663	2,088	5	6,756
Additions	-	184	-	184
Amortization charge	(1,113)	(891)	(5)	(2,009)
Closing net book amount	**3,550**	**1,381**	**-**	**4,931**
At December 31, 2015				
Cost	19,200	8,550	927	28,677
Accumulated amortization	(15,650)	(7,169)	(927)	(23,746)
Net book amount	**3,550**	**1,381**	**-**	**4,931**

Nine
Goodwill

The Corporation performed its annual assessment for goodwill impairment as at December 31, 2015 in accordance with its policy described in Note 2(l). Goodwill has been allocated to the following CGUs:

($ Thousands of Canadian dollars)	**2015**	2014
Calgary	5,382	5,382
Edmonton	4,346	4,346
Vancouver 2	3,413	3,413
Victoria	3,208	3,208
Vancouver 1	2,630	2,630
Montréal	823	823
Québec	654	654
Total	**20,456**	**20,456**

In assessing goodwill for impairment at December 31, 2015, the Corporation determined that: the assets and liabilities of the CGUs evaluated have not changed significantly from the prior year at December 31, 2014; the estimated recoverable amounts of the CGUs exceeded their carrying amounts by a significant amount; no events or circumstances have changed; and the likelihood of an impairment in goodwill is remote.

In performing our analysis, estimated recoverable amounts were determined based on the value in use of the CGUs using available cash flow budgets that made maximum use of observable markets for inputs and outputs, including actual historical performance. For periods beyond the budgeted period, cash flows were extrapolated using growth rates that did not exceed the long-term averages for the business. Key assumptions included a weighted average growth rate of 3% (2014 – 3%) and a pre-tax discount rate of 12% (2014 – 14%) for all CGUs.

The fair value of each CGU was in excess of its carrying amount. Significant CGUs include Edmonton, Calgary, Vancouver 1 and 2, and for these CGUs the fair value significantly exceeds the carrying amount. Based on sensitivity analysis, no reasonably possible change in key assumptions would cause the carrying amount of any CGU to exceed its recoverable amount. The total recoverable amount for all CGU's exceeded their carrying amount by $197,539.

The recoverable amount for the CGUs that were in excess of their carrying values was 238% of the carrying value of the applicable CGUs based on a weighted average.

Based on sensitivity analysis, no reasonably possible change in growth rate assumptions would cause the recoverable amount of any CGU to have a significant change from its current valuation. A 1% change in the discount rate would not have a significant impact on the recoverable amounts of CGUs. The recoverable amount of each CGU is sensitive to changes in market conditions and could result in material changes in the carrying value of intangible assets in the future.

We will always invest in our valued employees and our plants so that we continue to be the market leader in our evolving industry.

JENSEN
1
PUSH
2
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Ten
Provisions

The Corporation has recognized provisions as at December 31, 2015 to recognize estimated obligations resulting from operations. The carrying amount of the provisions is estimated at the end of the reporting period based on best available information.

The following table provides a continuity schedule of all recorded provisions:

($ Thousands of Canadian dollars)	***2015***	*2014*
Balance, beginning of year	**262**	**250**
Additions	-	350
Payments	(262)	(338)
Balance, end of year	**-**	**262**

Eleven
Long-Term Debt

($ Thousands of Canadian dollars)	*Bankers Acceptances*[1]	*Prime Rate Loan*[2]	*Total Long-Term Debt*
At January 1, 2014	4,000	15,640	19,640
Repayment of debt	(4,000)	(15,640)	(19,640)
Closing Balance at December 31, 2014	**-**	**-**	**-**
Current portion of long-term debt	-	-	-
Non-current portion of long-term debt	**-**	**-**	**-**
At January 1, 2015	-	-	-
Net proceeds from debt	-	2,349	2,349
Repayment of debt	-	-	-
Closing Balance at December 31, 2015	**-**	**2,349**	**2,349**

[1] Bankers' Acceptances bear interest at 30 day BA rates plus 1.25% depending on certain financial ratios.

[2] Prime rate loan, collateralized by a general security agreement, bear interest at prime plus 0.0% to 1.0% depending on certain financial ratios, monthly repayment of interest only, maturing on July 31, 2018. As at December 31, 2015, the combined interest rate was 2.7%.

The Corporation has a revolving credit facility of up to $50,000 of which $3,999 is utilized (including letters of credit totaling $1,650 per Note 15(a)) as at December 31, 2015. The agreement is a committed facility maturing on July 31, 2018. Interest payments only are due during the term of the facility.

Drawings under the revolving credit facility are available by way of Bankers' Acceptances, Canadian prime rate loans, letters of credit or standby letters of guarantee. Drawings under the revolving credit facility bear interest at a floating rate, plus an applicable margin based on certain financial performance ratios.

A general security agreement over all assets, a mortgage against all leasehold interests and real property, insurance policies and an assignment of material agreements have been pledged as collateral. The carrying value of borrowings approximate their fair value as the debt is based on a floating rate, the interest rate risk has not changed, and the impact of discounting is not significant.

The Corporation has incurred no events of default under the terms of its credit facility agreement.

Twelve
Finance Expense

($ Thousands of Canadian dollars)	2015	2014
Interest on long-term debt	70	578
Other charges, net	37	15
Total	**107**	**593**

Thirteen
Unamortized Lease Inducements

($ Thousands of Canadian dollars)	2015	2014
Balance, beginning of year	993	1,090
Amortization charge	(154)	(97)
Total	**839**	**993**
Less current portion, included in accrued liabilities	(143)	(143)
Total	**696**	**850**

Fourteen
Income Taxes

A reconciliation of the expected income tax expense to the actual income tax expense is as follows:

($ Thousands of Canadian dollars)	2015	2014
Current tax:		
Current tax on profits for the year	4,245	4,081
Total current tax	**4,245**	**4,081**
Deferred tax:		
Origination and reversal of temporary differences	708	543
Impact of substantively enacted rates and other	240	(159)
Total deferred tax	**948**	**384**

The tax on the Corporation's earnings differs from the theoretical amount that would arise using the weighted average tax rate applicable to earnings of the consolidated entities as follows:

($ Thousands of Canadian dollars)	2015	2014
Earnings before income taxes	**17,261**	**16,663**
Non-deductible expenses	1,667	1,403
Income subject to tax	**18,928**	**18,066**
Income tax at statutory rate of 26.2% (2014 - 25.6%)	4,953	4,624
Impact of substantively enacted rates and other	240	(159)
Income tax expense	**5,193**	**4,465**

The analysis of the deferred tax assets and deferred tax liabilities is as follows:

($ Thousands of Canadian dollars)	2015	2014
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	(357)	(471)
Deferred tax asset to be recovered within 12 months	(94)	(90)
Total	**(451)**	**(561)**
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	3,441	3,115
Deferred tax liability to be recovered within 12 months	2,923	2,411
Total	**6,364**	**5,526**
Deferred tax liabilities, net	**5,913**	**4,965**

The movement of deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdictions, is as follows:

($ Thousands of Canadian dollars)	Accounts Payable and Accrued Liabilities	Offering Costs and Other	Total
Deferred tax assets			
At January 1, 2014	(141)	(81)	(222)
Charged (credited) to the statement of earnings	141	(480)	(339)
At December 31, 2014	**-**	**(561)**	**(561)**
Charged (credited) to the statement of earnings	-	110	110
At December 31, 2015	**-**	**(451)**	**(451)**

($ Thousands of Canadian dollars)	Linen in Service	Property, Plant and Equipment	Intangible Assets and Goodwill	Total
Deferred tax liabilities				
At January 1, 2014	2,153	1,479	1,622	5,254
Charged (credited) to the statement of earnings	258	317	(303)	272
At December 31, 2014	**2,411**	**1,796**	**1,319**	**5,526**
Charged (credited) to the statement of earnings	512	636	(310)	838
At December 31, 2015	**2,923**	**2,432**	**1,009**	**6,364**

Fifteen
Contingencies and Commitments

A. Contingencies – Letters of Credit

The Corporation has standby letters of credit issued as part of normal business operations in the amount of $1,650 (2014 – $1,650) which will remain outstanding for an indefinite period of time.

B. Commitments

i. Operating leases and utility commitments

At December 31, 2015, the Corporation was committed to minimum lease payments for operating leases on buildings and equipment and estimated natural gas and electricity commitments for the next five calendar years and thereafter are as follows:

($ Thousands of Canadian dollars)	
2016	6,367
2017	5,259
2018	3,863
2019	2,295
2020	2,035
Subsequent	10,191
Total	**30,010**

ii. Linen purchase commitments

At December 31, 2015, the Corporation was committed to linen expenditure obligations in the amount of $5,254 (2014 – $4,322) to be incurred within the next year.

iii. Capital expenditure commitments

At December 31, 2015, the Corporation was committed to capital expenditure obligations in the amount of $3,675 (2014 – $21,741) to be incurred within the next year.

Sixteen
Share Capital

A. Authorized

The Corporation is authorized to issue an unlimited number of common shares and such number of shares of one class designated as preferred shares which number shall not exceed 1/3 of the common shares issued and outstanding from time to time.

B. Issued

	2015	*2014*
Balance, beginning of year	**7,959,735**	**7,095,343**
Common shares issued under LTI	25,978	24,892
Common share issuance under equity offering	-	839,500
Balance, end of year	**7,985,713**	**7,959,735**
Unvested common shares held in trust for LTI	**39,716**	**45,368**

$9.6m *in dividends* **$1.20** *per share*

The Corporation issued 839,500 common shares on December 9, 2014 (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 $34,839 ($41.50/share). The related transaction costs amounting to $1,316 have been netted against the deemed proceeds.

Seventeen
Earnings per Share

A. Basic

Basic earnings per share is calculated by dividing the net earnings attributable to equity holders of the Corporation by the weighted average number of ordinary shares in issue during the year.

	2015	*2014*
Net earnings	12,068	12,198
Weighted average number of shares outstanding (thousands)	7,921	7,091
Net earnings per share, basic	1.52	1.72

The basic net earnings per share calculation excludes the unvested Common shares held by the LTIP Trust.

B. **Diluted**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares to assume conversion of all dilutive potential ordinary shares.

	2015	2014
Basic weighted average shares for the year	7,920,609	7,090,937
Dilutive effect of LTI shares	9,883	20,295
Fully diluted weighted average shares for the year	7,930,492	7,111,232
Net earnings	12,068	12,198
Weighted average number of shares outstanding (thousands)	7,930	7,111
Net earnings per share, diluted	1.52	1.72

Eighteen
Long-Term Incentive Plan

A trust was formed to hold equity grants issued under the terms of the LTI on behalf of the participants (the "LTIP Trust"). The Corporation is neither a trustee of the LTIP Trust nor a direct participant of the LTI; however, under certain circumstances the Corporation may be the beneficiary of forfeited Common shares held by the LTIP Trust. The Corporation has control over the LTIP Trust as it is exposed, or has rights, to variable returns and has the ability to affect those returns through its power over the LTIP Trust. Therefore the Corporation has consolidated the LTIP Trust. Compensation expense is recorded by the Corporation in the period earned. Dividends paid by the Corporation with respect to unvested Common shares held by the LTIP Trust are paid to LTI participants. Unvested Common shares held by the LTIP Trust are shown as a reduction of shareholders' equity.

	2015		2014	
	Unvested	***Vested***	*Unvested*	*Vested*
Balance, beginning of year	**45,368**	**311,479**	**63,604**	**268,351**
Issued during year	18,298	7,680	24,311	9,965
Cancelled during year	-	-	(9,384)	-
Vested during year	(23,950)	23,950	(33,163)	33,163
Balance, end of year	**39,716**	**343,109**	**45,368**	**311,479**

The cost of the 39,716 (2014 – 45,368) unvested Common shares held by the LTIP Trust at December 31, 2015 was nil (2014 - nil).

Nineteen
Dividends to Shareholders

During the year ended December 31, 2015, the Corporation declared total dividends to shareholders of $9,570 or $1.20 per share (2014 - $8,498 or $1.18 per share).

The Corporation's policy is to pay dividends to Shareholders of its available cash to the maximum extent possible consistent with good business practice 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 to the Shareholders on the last business day of each month and are paid by the 15th day of the following month.

We are the largest healthcare & hospitality laundry & linen processor in Canada.

Twenty
Net Change in Non-Cash Working Capital Items

($ Thousands of Canadian dollars)	***2015***	*2014*
Accounts receivable	(2,595)	905
Linen in service	(1,485)	(1,147)
Prepaid expenses and deposits	(52)	(92)
Accounts payable and accrued liabilities	(2,137)	1,522
Income taxes payable	(52)	152
Total	**(6,321)**	**1,340**

Accounts payable and accrued liabilities exclude $5,626 in the Consolidated Statement of Cash Flows, which represent property, plant and equipment, committed to and accrued for at year end.

Twenty-One
Financial Instruments

A. Fair Value

The Corporation'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 carrying value of accounts receivable, accounts payable and accrued liabilities, and dividends payable to Shareholders approximate fair value due to the immediate or short-term maturity of these financial instruments. The fair value of the Corporation's interest-bearing debt approximates the respective carrying amount due to the floating rate nature of the debt.

B. Financial Risk Management

The Corporation's activities are exposed to a variety of financial risks: price risk, credit risk and liquidity risk. The Corporation's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Corporation's financial performance. Risk management is carried out by financial management in conjunction with overall corporate governance.

C. Price Risk

i. Currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Corporation is not significantly exposed to foreign currency risk as all revenues are received in Canadian dollars and minimal expenses are incurred in foreign currencies. For large capital expenditure commitments denominated in a foreign currency, the Corporation will enter into foreign exchange forward contracts if considered prudent to mitigate this risk. Based on the net liability at year end, the sensitivity to a 100 basis point movement in US to CAD currency rates would result in an impact of $11 to the net balance.

ii. Interest rate risk

The Corporation is subject to interest rate risk as its credit facility bears interest at rates that depend on certain financial ratios of the Corporation and vary in accordance with market interest rates. Based on the credit facility at year end, the sensitivity to a 100 basis point movement in interest rates would result in an impact of $23 to the net balance.

iii. Other price risk

The Corporation's exposure to other price risk is limited since there are no significant financial instruments which fluctuate as a result of changes in market prices.

D. Credit Risk

The Corporation's financial assets that are exposed to credit risk consist of accounts receivable. The Corporation, in the normal course of business, is exposed to credit risk from its customers. The allowance for doubtful accounts and past due receivables are reviewed by management at each balance sheet reporting date. Any amounts greater than 60 days are considered overdue and all impaired amounts have been fully allowed for as at December 31, 2015.

The Corporation updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of accounts receivable balances of each customer taking into account historic collection trends, the contractual relationship with the customer and the nature of the customer which in many cases is a publicly funded health care entity.

Management believes that the risks associated with concentrations of credit risk with respect to accounts receivable are limited due to the nature of the customers and the generally short payment terms.

The aging of the Corporation's receivables and related allowance for doubtful accounts are:

($ Thousands of Canadian dollars)	*Gross*	*Allowance*	*Net*
December 31, 2014			
Current	11,636	-	11,636
31-60 days	2,794	-	2,794
Greater than 60 days	161	31	130
Total	**14,591**	**31**	**14,560**
December 31, 2015			
Current	12,861	-	12,861
31-60 days	3,875	-	3,875
Greater than 60 days	449	30	419
Total	**17,185**	**30**	**17,155**

While the Corporation evaluates a customer's credit worthiness before credit is extended, provisions for potential credit losses are also maintained. The change in allowance for doubtful accounts was as follows:

($ Thousands of Canadian dollars)	***2015***	*2014*
Balance, beginning of year	**31**	**37**
Adjustments made during the year	(1)	16
Write-offs	-	(22)
Balance, end of year	**30**	**31**

E. **Liquidity Risk**

The Corporation's accounts payable and dividend payable are due within one year.

The Corporation has a credit facility with a maturity date of July 31, 2018 (Note 11). The degree to which the Corporation is leveraged may reduce its ability to obtain additional financing for working capital and to finance investments to maintain and grow the current levels of cash flows from operations. The Corporation may be unable to extend the maturity date of the credit facility.

Management, to reduce liquidity risk, has historically renewed the terms of the credit facility in advance of its maturity dates and the Corporation has maintained financial ratios that management believes are conservative compared to financial covenants applicable to the credit facility. A significant portion of the available facility remains undrawn.

Management measures liquidity risk through comparisons of current financial ratios with financial covenants contained in the credit facility.

Twenty-Two
Capital Management

The Corporation views its capital resources as the aggregate of its debt, shareholders' equity and amounts available under its credit facility. In general, the overall capital of the Corporation is evaluated and determined in the context of its financial objectives and its strategic plan.

The Corporation's objective in managing capital is to ensure sufficient liquidity to pursue its growth and expansion strategy, while taking a conservative approach towards financial leverage and management of financial risk. The Corporation's capital is composed of shareholders' equity and long-term debt. The Corporation's primary uses of capital are to finance its growth strategies and capital expenditure programs. The Corporation currently funds these requirements from internally-generated cash flows and interest bearing debt.

The Corporation pays a dividend which reduces its ability to internally finance growth and expansion. However the availability of the Corporation's revolving line of credit provides sufficient access to capital to allow K-Bro to take advantage of acquisition opportunities. The merits of the dividend are periodically evaluated by the Board.

The primary measures used by the Corporation to monitor its financial leverage are the ratios of Funded Debt to EBITDA (earnings before income taxes, depreciation and amortization) and Fixed Charge Coverage. EBITDA is an additional GAAP measure as prescribed by IFRS and has been presented in the manner in which the chief operating decision maker assesses performance.

The Corporation manages a Funded Debt to EBITDA ratio calculated as follows:

($ Thousands of Canadian dollars)	***2015***	*2014*
Long-term debt, including current portion	2,349	-
Issued and outstanding letters of credit	1,650	1,650
Funded debt	**3,999**	**1,650**
Net earnings for the trailing twelve months	12,068	12,198
Add:		
Income tax expense	5,193	4,465
Finance expense	107	593
Depreciation of property, plant and equipment	7,573	6,817
Amortization of intangible assets	2,009	2,121
Loss on disposal of property, plant and equipment	190	47
EBITDA	**27,140**	**26,241**
Funded debt to EBITDA	**0.15x**	**0.06x**

The Corporation manages a Fixed Charge Coverage calculated on a trailing twelve-month basis as follows:

($ Thousands of Canadian dollars)	**2015**	*2014*
EBITDA	**27,140**	**26,241**
Finance expense	107	593
Dividends to shareholders	9,570	8,498
Total	**9,677**	**9,091**
Fixed charged coverage	**2.8x**	**2.9x**

Twenty-Three
Related Party Transactions

The Corporation transacts with key individuals from management and with the Board who have authority and responsibility to plan, direct and control the activities of the Corporation. The nature of these dealings were in the form of payments for services rendered in their capacity as Directors (retainers and meeting fees, including share-based payments) and as employees of the Corporation (salaries, benefits, short-term bonuses and share-based payments).

Key management personnel are defined as the executive officers of the Corporation including the President and Chief Executive Officer, Senior Vice-President and General Manager, Vice-President and Chief Financial Officer and three employees acting in the capacity of Vice-President and General Manager.

During 2015 and 2014, remuneration to directors and key management personnel was as follows:

($ Thousands of Canadian dollars)	**2015**	*2014*
Salaries and retainer fees	1,814	1,790
Short-term bonus incentives	885	902
Post-employment benefits	55	57
Share-based payments	1,156	1,067
Total	**3,910**	**3,816**

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by a Director. The amounts charged are included as salaries and retainer fees. For the year ended December 31, 2015, the Corporation incurred such fees totaling $138 (2014 – $138).

Twenty-Four
Expenses by Nature

($ Thousands of Canadian dollars)	**2015**	2014
Wages and benefits	69,796	65,414
Linen	15,041	14,438
Utilities	8,788	8,898
Delivery	7,001	6,246
Materials and supplies	5,581	5,775
Occupancy costs	5,375	5,002
Repairs and maintenance	4,597	4,232
Other expenses	1,218	194
Total	**117,397**	**110,199**

Twenty-Five
Segmented Information

The Chief Executive Officer is the corporation's chief operating decision-maker. Management has determined the operating segments based on information reviewed by the Chief Executive Officer for the purposes of allocating resources and assessing performance.

The Corporation provides laundry and linen services to the healthcare and hospitality sectors through nine operating divisions located in Vancouver, Victoria, Calgary, Edmonton, Regina, Toronto, Montréal, and Québec City.

Management has assessed that the services offered and the economic characteristics associated with these divisions are similar, and therefore they have been aggregated into one reportable segment which operates exclusively in Canada.

The aggregation assessment requires significant judgment by management. Economic indicators used by management to assess the economic characteristics are the gross margin and the growth rate of each division.

In Edmonton, the Corporation is the significant supplier of laundry and linen services to the entity which manages all major healthcare facilities in the region and this contract expires on March 31, 2023 and in Calgary, the major customer is contractually committed to February 28, 2018. In Vancouver the major customer is contractually committed to March 1, 2027. For the year ended December 31, 2015, the Corporation has recorded revenue of $62,481 (2014 – $61,489) from these three major customers, representing 43% (2014 – 45%) of total revenue.

($ Thousands of Canadian dollars)	**2015**		2014	
Healthcare	98,940	68.5%	92,887	68.1%
Hospitality	45,597	31.5%	43,553	31.9%
Total	**144,537**	**100.0%**	**136,440**	**100.0%**

Twenty-Six
Subsequent Events

A. Dividends

The Corporation's Board of Directors declared an eligible dividend of $0.10 per Common share of the Corporation payable on each of February 12, March 15 and April 15, 2016 to Shareholders of record on January 31, February 29, and March 31, 2016 respectively.

B. 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.

C. Montréal Plant Equipment Purchase

On February 23, 2016, the Corporation entered into an agreement for the purchase of a new Tunnel for the Montréal 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.

D. Changes to Vancouver Contract

The Corporation'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 the Corporation 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 the Corporation and Fraser Health Authority, Provincial Health Services Authority, and Vancouver Coastal Health Authority and is a result of a competitive RFS process.

Twenty-Seven
Statements of Earnings & Comprehensive Income - *Reclassification*

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 Corporation. 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			2014		
($ Thousands of Canadian dollars)	***Before***	***Reclassification***	***After***	*Before*	*Reclassification*	*After*
Materials and supplies	5,198	(994)	4,204	4,474	(844)	3,630
Corporate	6,376	994	7,370	5,949	844	6,793
Total	**11,574**	**-**	**11,574**	**10,423**	**-**	**10,423**

Notice of Annual Meeting

The annual meeting of Shareholders will be held at the *Offices of Stikeman Elliott LLP,* Main Boardroom 5300 Commerce Court West, 199 Bay Street Toronto, Ontario on *Wednesday, June 8, 2016 at 9:00am EDT*

Corporate Information

Board of Directors

Ross Smith, *FCPA, FCA (Chair)*
Corporate Director

Matthew Hills, *MBA*
Managing Director
LLM Capital Partners LLC

Steven Matyas, *BSc*
President
Staples Canada Inc.

Linda McCurdy, *MBA*
President & CEO
K-Bro Linen Systems Inc.

Michael Percy, *PhD*
Professor, School of Business
University of Alberta

Executive Officers

Linda McCurdy, *MBA*
President & CEO

Sean Curtis
Senior Vice-President & GM (Edmonton)

Kristie Plaquin
Chief Financial Officer

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General Manager
Peter Papagianeas
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Trevor Rye
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General Manager

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Sylvain Tremblay
Directeur Général

Transfer Agent & Registrar

CST Trust Company
Calgary, Alberta

Auditors

PricewaterhouseCoopers LLP
Edmonton, Alberta

Legal Counsel

Stikeman Elliott
Toronto, Ontario
McLennan Ross LLP
Edmonton, Alberta

Principal Bank

TD Bank
Edmonton, Alberta

Stock Exchange Listing

TSX: KBL

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