2016 ANNUAL REPORT

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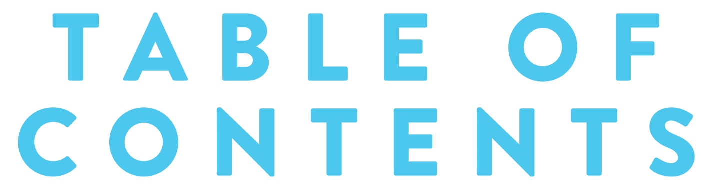
WE ARE
DEPENDABLE.



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PRESIDENT'S MESSAGE

2016 WAS AN IMPORTANT YEAR IN K-BRO'S HISTORY.

2016 was an important year in K-Bro's history. We had solid revenue and EBITDA growth of 10.1% and 4%, and maintained our dividend of $1.20/share. At the same time, we continued to maintain a flexible capital structure in order to capitalize on all of our growth opportunities.

We have positioned the Company for significant growth in several of our markets, and expect to reap the benefits of these investments in the years ahead.

- **We fully-transitioned our Saskatchewan volume into our new modern Regina facility, providing us with the capacity to continue to grow our healthcare and hospitality businesses.**
- **We completed the transition to our new state-of-the-art Toronto facility during the first quarter 2017, one that will give us tens of millions of pounds of additional capacity at a favorable cost structure. We have recently signed almost $7.6 million in revenue of new business.**
- **We are building a large state-of-the-art healthcare plant in Vancouver that will enable us to process tens of millions of pounds of additional volume at a competitive cost structure. We have re-signed a significant amount of our existing Vancouver healthcare volume to new long-term contracts and have been awarded most of the healthcare volume processed by our competitor. We are also investing significant capital to upgrade and modernize our Vancouver hospitality plant.**

Once completed, K-Bro will have a network of large, efficient, and state-of-the-art plants in most of our markets across the country.

Often our long-term opportunities have short-term trade-offs, and we will work through transitions to our new plants in 2017 and 2018. While we expect continuing growth in revenue and profitability, we will also incur transition and other one-time costs related to positioning our Company for years of new growth opportunities.

We work hard every day to exceed the high expectations of our customers and suppliers, to provide the best possible careers for our employees, and to continue to earn the confidence of our shareholders. Our management team and our nearly 2,000 employees thank you for your continuing support, and we look forward to a successful future.

“WE WILL INVEST IN OURSELVES & CONTINUE TO EVOLVE ABOVE THE REST”

LINDA McCURDY

K-BRO IS CANADA'S LARGEST HEALTHCARE & HOSPITALITY LAUNDRY & LINEN PROCESSOR WITH FACILITIES ALL ACROSS THE COUNTRY.

Victoria
Vancouver
Calgary
Edmonton
Regina
Toronto
Montréal
Québec City

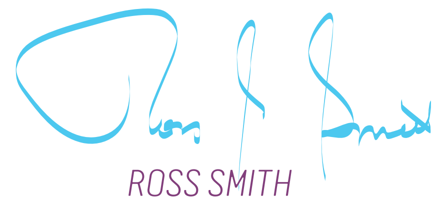
CHAIRMAN'S MESSAGE

WE ARE PLEASED THAT 2016 REPRESENTED ANOTHER YEAR OF GROWTH FOR K-BRO.

We are pleased that 2016 represented another year of growth for K-Bro. We are optimistic that we have taken key steps to position the Company for growth in several key markets. 2016 was truly an important year for our Company.

The Board of Directors remains dedicated to strong corporate governance and oversight, and to ensuring the Company continues to best position itself for future growth and profitability.

I want to thank you for your trust and confidence on behalf of the Company, our 2,000 employees, our executive team, and our Board. We will always work hard to earn your loyalty and trust every day.



ROSS SMITH

OFFICERS & DIRECTORS

K-Bro is the largest healthcare and hospitality laundry and linen processor in Canada. K-Bro operates nine facilities and two distribution centres in eight major cities across Canada 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 becomes more diverse, we integrate our commitment to responsibility into our new businesses, employees and the communities in which we live and work.

> **"IN 2016 WE COMMENCED CONSTRUCTION OF OUR MODERN NEW TORONTO FACILITY AND BEGAN PLANNING FOR A MUCH LARGER STATE-OF-THE-ART PLANT IN VANCOUVER."**

SEAN CURTIS *SENIOR VICE-PRESIDENT AND GENERAL MANAGER*

“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.”

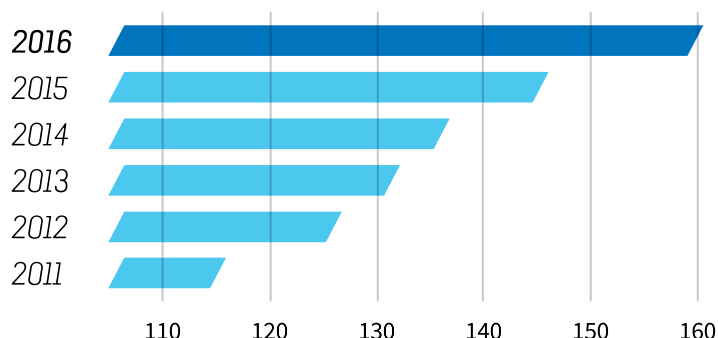
KRISTIE PLAQUIN CHIEF FINANCIAL OFFICER

FROM LEFT TO RIGHT: Ross Smith, Linda McCurdy, Kristie Plaquin, Michael Percy, Sean Curtis, Steven Matyas, Matthew Hills, Ryo Utahara, Sylvain Tremblay, Jerry Ostrzyzek, Jessica Lévesque, Kevin Stephenson, Jeff Gannon, Kevin McElgunn, Sean Jackson

FINANCIAL HIGHLIGHTS

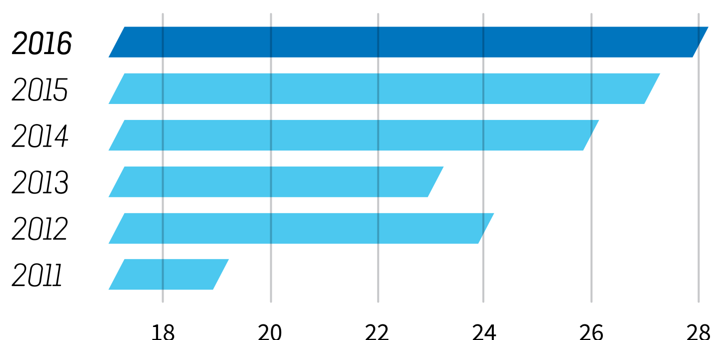
The following unaudited financial data has been derived from K-Bro's consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP. The information set forth below should be read in conjunction with the Management's Discussion & Analysis, Consolidated Financial Statements and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

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



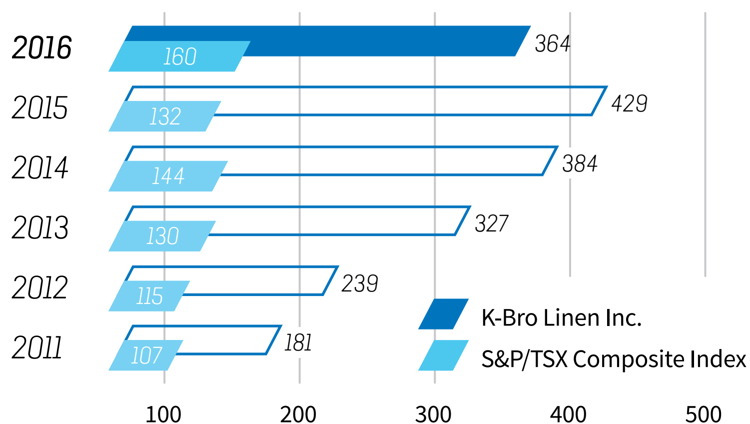
REVENUE
UP
10.1%

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



EBITDA
UP
4.0%

TOTAL SHAREHOLDER RETURN *$100 investment in 2009*



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.

"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."

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 $147 million in modern 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 linen services in all markets that we service.

WE ARE DEPENDABLE.

In aggregate, our nine plants provided services to more than 1,700 customers and employed 1,900 employees in 2016. At December 31, 2016, total assets were $168 million, equity was $117 million and market capitalization was $338 million.

"K-BRO EXCELS AT DISCOVERING AND WINNING NEW OPPORTUNITIES AND CLIENTS AND BUILDING ON THE SUCCESSES WE'VE HAD IN OUR DECADES OF EXPERIENCE AS LEADERS IN OUR SECTOR."

SEAN CURTIS SENIOR VP & GM

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 pre-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.

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

DIVERSIFIED AND INTEGRATED SERVICES

We provide critical services including, 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 ensure 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. Five 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 focus on efficiencies and cost savings. As one of the largest linen purchasers 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.

In 2016, K-Bro continued to excel at winning new opportunities and clients, 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 added six major healthcare customers and one hospitality customer to our base. We also secured four more hospitably customers in Quebec, as well as one major healthcare customer in Ontario and added another major healthcare customer in early 2017. In Alberta, we signed three additional hoteliers and extended agreements with several others. Our new clients include some of the finest hotels in the country.

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 access to the resources that 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 clients talk to us not only about their present needs, but about the direction of the future. They depend on the knowledge we've accumulated over our history.

During 2016 we refined our operating processes at the new Regina processing facility, began construction of our new Toronto processing facility and commenced planning for our new Vancouver facility while continuing to deliver stronger results to our shareholders.

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 continue to 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 twelve 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 are the source of our advantage.

WE ARE DEPENDABLE.

> “AS EVENTS HAVE UNFOLDED SINCE ENTERING THE PUBLIC MARKET, OUR READINESS HAS CONTRIBUTED TO OUR SUCCESS IN DEPENDABILITY AND GROWTH.”

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.

Years ended December 31	2016	2015	2014	2013	2012	2011
Income Statement Data						
Revenue	159,089	144,537	136,440	131,202	126,290	116,859
EBITDA	28,236	27,140	26,241	23,317	24,517	19,946
EBITDA %	17.7	18.8	19.2	17.8	19.4	17.1
Net earnings	11,527	12,068	12,198	10,336	11,149	7,928
Net earnings per share *(Diluted)*	1.44	1.52	1.72	1.47	1.59	1.14
Balance Sheet Data						
Working Capital	13,766	8,670	21,717	9,434	8,064	7,245
Long-Term Debt	25,800	2,349	0	19,640	5,818	6,095
Other Financial Data						
Distributable cash per share	2.76	2.69	2.85	2.61	2.72	2.40
Payout Ratio %	43.5	44.8	42.0	44.2	41.8	45.9
Price to earnings multiple *(12 month trailing)*	29.3	33.5	26.9	27.0	18.1	19.6
Price to EBITDA multiple *(12 month trailing)*	11.9	14.9	12.5	12.0	8.2	7.8
Return on shareholders’ equity ROE %	9.9	10.7	11.1	14.5	16.5	12.6
Total Shareholder return, YTD %	14.9	13.1	19.4	41.2	34.9	27.5
Total Shareholder return, 5 yrs %	66.4	155.0	182.9	235.2	253.8	121.1
Market capitalization	338,190	406,872	367,023	280,976	203,613	155,821
Share price:						
High	50.98	56.99	47.90	40.50	30.18	22.98
Low	36.69	43.00	36.90	28.38	21.20	17.28
Close	42.15	50.95	46.11	39.60	28.86	22.24

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

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MANAGEMENT'S DISCUSSION & ANALYSIS

"EVERY DAY WE MUST EARN THE RESPECT AND FAITH OF OUR CUSTOMERS WITH THE HIGHEST QUALITY & HIGHEST VALUE SERVICE."

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, 2016 and 2015, as well as the unaudited interim condensed Consolidated Financial Statements for the periods ended March 31, 2016, June 30, 2016 and September 30, 2016. The Corporation and its wholly-owned subsidiaries, including K-Bro Linen Systems Inc., are collectively referred to as "K-Bro" in this MD&A.

Management is responsible for the information contained in this MD&A and its consistency with information presented to the Audit Committee and Board of Directors. All information in this document has been reviewed and approved by the Audit Committee and Board of Directors. This review was performed by management with information available as of March 24, 2017.

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

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

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

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

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

INTRODUCTION

CORE BUSINESS

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

INDUSTRY & 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 & 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 & PRODUCT MIX

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

STRATEGY

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

Secure and Maintain Long-Term Contracts with Large Healthcare and Hospitality Customers

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

Extend Core Services To New Markets

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

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

Introduce Related Services

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

FOURTH QUARTER REVIEW

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

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

REVENUE **UP**

10.1%

"IN THE FOURTH QUARTER OF 2016, REVENUE WAS $39.3 MILLION WHICH WAS 4.2% HIGHER THAN THE $37.7 MILLION GENERATED IN THE COMPARATIVE QUARTER OF 2015."

SELECTED ANNUAL FINANCIAL INFORMATION

	2016	2015	2014
Revenue	159,089	144,537	136,440
Earnings before income taxes	16,367	17,261	16,663
Net earnings	11,527	12,068	12,198
Net Earnings Per Share			
Basic	1.45	1.52	1.72
Diluted	1.44	1.52	1.72
Total Assets	168,289	143,023	132,638
Long-Term Debt	25,800	2,349	-
Dividends declared to Shareholders	9,613	9,570	8,498
Dividends declared to Shareholders per share	1.200	1.200	1.183
Weighted Average Number of Shares Outstanding:			
Basic	7,955,026	7,920,609	7,090,937
Diluted	7,986,729	7,930,492	7,111,232

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

SUMMARY OF 2016 RESULTS AND KEY EVENTS

FINANCIAL GROWTH

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

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

Near-Term & Long-Term Growth & Margin Impact

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

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

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

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

Vancouver Facility Development

As announced on March 2, 2016, K-Bro has commenced the planning and development of a new state-of-the- art facility with a projected investment of up to $50 million with the potential for an additional $5 million due to exposure from the U.S. dollar and construction costs that have not been fully tendered. The new Vancouver plant will be located in Burnaby, and the Corporation expects to transition to the new facility during the third quarter of 2018. The new facility will enable K-Bro to expand current capacity, to accommodate the additional awarded volume, and to provide the opportunity to consolidate the healthcare volume from its existing two Vancouver-area facilities. In addition to investing in the new facility, K-Bro will upgrade and replace equipment at one of its existing Vancouver-area facilities, which will be used to process the consolidated hospitality volume. K-Bro will not be renewing the lease for the remaining Vancouver-area facility and related assets will be transferred to the other K-Bro facilities. K-Bro believes it will achieve significant operating efficiencies at its new plant. K-Bro plans to finance the entire amount from its existing $85 million credit facility. However, management intends to continually assess its opportunities to maintain a conservative amount of leverage and balance sheet flexibility in the short and long-term basis in order to ensure that sufficient capital is available for future growth needs. It is anticipated that transition costs associated with the new Vancouver plant will negatively impact EBITDA margins over the third and fourth quarters of 2018 while the plant becomes operational.

Toronto Facility Development

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

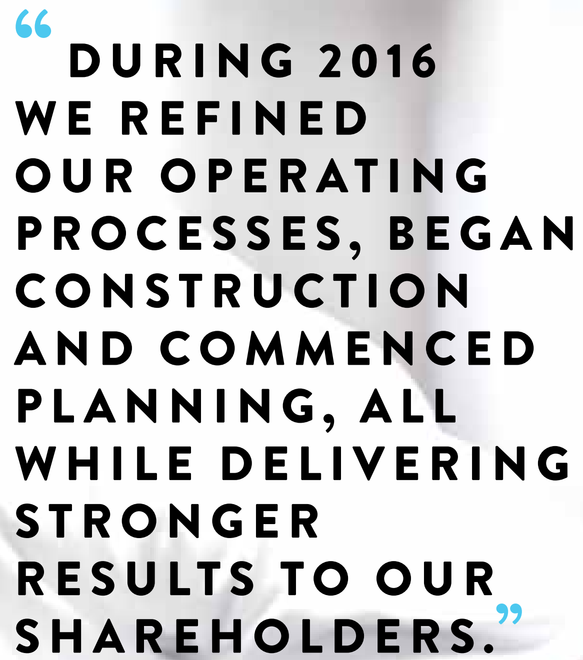
Toronto Contract Awards

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

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

Toronto Collective Bargaining Agreement

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



“DURING 2016 WE REFINED OUR OPERATING PROCESSES, BEGAN CONSTRUCTION AND COMMENCED PLANNING, ALL WHILE DELIVERING STRONGER RESULTS TO OUR SHAREHOLDERS.”

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:

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

($ Thousands of Canadian dollars, except percentages)

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

2 Debt to total capitalization is defined as total debt divided by total capital. See Terminology.

OUTLOOK

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

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

REVOLVING CREDIT FACILITY

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

EFFECTS OF ECONOMIC UNCERTAINTY

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

- Approximately 72.3% of its revenues in the quarter were from large publicly funded healthcare customers which are geographically diversified across multiple provinces;
- At December 31, 2016, K-Bro had unutilized borrowing capacity of $57.6 million or 67.7% of the revolving credit line available; and,
- K-Bro's prudent approach to managing capital has added cash flow and liquidity to the Corporation, thereby improving its ability to withstand the turmoil in the national and global capital markets.

"WE REMAIN EXCITED ABOUT OUR GROWTH PLANS AND ARE CONFIDENT IN OUR ABILITY TO CONTINUE PROVIDING VALUE TO OUR CUSTOMERS AND SHAREHOLDERS."

REVENUE, EBITDA & EARNINGS

For the year ended December 31, 2016, K-Bro's revenue increased by 10.1% to $159.1 million from $144.5 million in the comparative period. This increase was due to additional volume from the 3sHealth region associated with the commissioning of the new facility in Regina, additional awarded healthcare volume from the recently signed Vancouver lower mainland contract, organic growth at existing customers, and new customers secured in existing markets, offset by price concessions in Vancouver as a result of contractual terms related to a new ten year contract. In 2016, approximately 70.0% of K-Bro's revenue was generated from healthcare institutions which is slightly higher compared to 68.5% in 2015, mainly due to volume from the 3sHealth region and additional Vancouver lower mainland volume.

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

Net earnings decreased by $0.6 million or from $12.1 million in 2015 to $11.5 million in 2016. Net earnings as a percentage of revenue decreased by 1.1% to 7.2% in 2016 from 8.3% in 2015. This decrease in net earnings is primarily due to the flow through items in EBITDA discussed above and higher depreciation of property, plant and equipment and interest expense, offset by a lower income tax expense.

$159.089 MILLION

2016 REVENUE

$111.384 — $47.705

(IN MILLIONS)

HEALTHCARE — HOSPITALITY

$144.537 MILLION

2015 REVENUE

$98.940 — $45.597

(IN MILLIONS)

HEALTHCARE — HOSPITALITY

$ Thousands of CDN, except per share data and percentages

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.

RESULTS OF OPERATIONS

QUARTERLY FINANCIAL INFORMATION

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

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	**28,374**	**27,333**	**27,553**	**28,124**	**27,100**	**23,978**	**24,005**	**23,857**
Hospitality revenue	**10,877**	**14,224**	**11,916**	**10,688**	**10,580**	**13,722**	**11,332**	**9,963**
Total revenue	**39,251**	**41,557**	**39,469**	**38,812**	**37,680**	**37,700**	**35,337**	**33,820**
Expenses included in EBITDA	32,844	34,019	31,954	32,036	31,507	30,123	28,251	27,516
EBITDA[1]	6,407	7,538	7,515	6,776	6,173	7,577	7,086	6,304
EBITDA as a % of revenue[%]	16.3	18.1	19.0	17.5	16.4	20.1	20.1	18.6
Depreciation and amortization	2,866	2,748	2,674	2,737	2,859	2,326	2,219	2,178
Finance expense (recovery)	247	(11)	110	393	156	(128)	177	(98)
Loss on disposal of equipment	86	-	19	-	172	4	14	-
Earnings before income taxes	3,208	4,801	4,712	3,646	2,986	5,375	4,676	4,224
Income tax expense	1,011	1,387	1,328	1,114	828	1,523	1,637	1,205
Net earnings	2,197	3,414	3,384	2,532	2,158	3,852	3,039	3,019
Net earnings as a % of revenue[%]	5.6	8.2	8.6	6.5	5.7	10.2	8.6	8.9
Basic Earnings per share	0.276	0.429	0.426	0.319	0.272	0.486	0.384	0.381
Diluted earnings per share	0.274	0.427	0.425	0.318	0.271	0.483	0.382	0.380
Total assets	168,289	153,923	148,068	146,816	143,023	145,106	135,516	133,229
Total long-term financial liabilities	33,949	17,596	14,360	12,717	8,958	6,776	6,361	5,892
Funds provided by operations	6,071	7,581	4,143	6,726	3,897	5,733	3,773	4,214
Long-term debt	25,800	10,338	7,252	5,970	2,349	-	-	-
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300

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

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

OPERATING EXPENSES

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

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

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

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

Occupancy costs increased to $5.3 million and to 3.3% as a percentage of revenue, compared to $5.2 million and 3.6% in 2015. This increase is a result of a new distribution facility, additional costs associated with the commissioning of the new Regina facility, and additional warehousing costs to address the temporary storage requirements related to the additional volume from the Vancouver lower mainland contract.

Materials and supplies increased to $4.8 million and to 3.0% as a percentage of revenue, compared to $4.2 million and 2.9% in 2015, due to higher costs associated with the new Regina facility and to support the increased volumes in certain markets.

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

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

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

Income tax includes current and future income taxes based on taxable income and the temporary timing differences between the tax and accounting bases of assets and liabilities. Income tax reflects the provision on the earnings of the Corporation.

LIQUIDITY & CAPITAL RESOURCES

In 2016 cash generated by operating activities was $24.5 million, compared to $17.6 million during 2015. The change in cash from operations is primarily due to the change in working capital items driven mainly from the timing of business activity and payments related to capital commitments.

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

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

CONTRACTUAL OBLIGATIONS

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

	PAYMENTS DUE BY PERIOD				
	TOTAL	< 1 YEAR	1-3 YEARS	4-5 YEARS	> 5 YEARS
Long-term debt	25,800	-	25,800	-	-
Operating lease commitments	55,407	5,236	10,259	8,751	31,161
Utility commitments	7,721	2,078	3,081	2,562	-
Linen purchase obligations	6,926	6,926	-	-	-
Property, plant and equipment commitments	37,525	28,897	8,628	-	-

The operating lease obligations are secured by automotive equipment and plants, and are more fully described in the audited annual consolidated financial statements. The source of funds for these commitments will be from operating cash flow and, if necessary, the undrawn portion of the revolving credit facility.

> "WE HAVE RECENTLY SIGNED $7.6 MILLION IN REVENUE OF NEW BUSINESS."

FINANCIAL POSITION

	2016	2015
Long-term debt	25,800	2,349
Shareholders' equity	116,672	113,240
Total capitalization	142,472	115,589
Debt to Total Capitalization%	**18.1**	**2.0**

(see Terminology for definition)

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

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

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

DIVIDENDS

FISCAL PERIOD	PAYMENT DATE	# OF SHARES OUTSTANDING	2016 AMOUNT PER SHARE$	2016 TOTAL AMOUNT[1 2 3] $	2015 AMOUNT PER SHARE$	2015 TOTAL AMOUNT[4 5 6] $
January	February 12	7,985,713	0.10000	799	0.10000	796
February	March 15	7,985,713	0.10000	799	0.10000	796
March	April 15	7,985,713	0.10000	799	0.10000	796
Q1			**0.30000**	**2,396**	**0.30000**	**2,388**
April	May 13	7,985,713	0.10000	799	0.10000	796
May	June 15	8,023,480	0.10000	802	0.10000	796
June	July 15	8,023,480	0.10000	802	0.10000	799
Q2			**0.30000**	**2,403**	**0.30000**	**2,391**
July	August 15	8,023,480	0.10000	802	0.10000	799
August	September 15	8,023,480	0.10000	802	0.10000	799
September	October 14	8,023,480	0.10000	802	0.10000	799
Q3			**0.30000**	**2,407**	**0.30000**	**2,396**
October	November 15	8,023,480	0.10000	802	0.10000	799
November	December 15	8,023,480	0.10000	802	0.10000	799
December	January 13	8,023,480	0.10000	802	0.10000	799
Q4			**0.30000**	**2,407**	**0.30000**	**2,396**
YTD			**1.20000**	**9,613**	**1.20000**	**9,570**

$ Thousands of CDN, except per share data and percentages

1 The total amount of dividends paid was $0.10000 per share for a total of $798,571 per month for January - March 2016; when rounded in thousands, $2,396 of dividends were paid for the quarterly period.

2 The total amount of dividends paid was $0.10000 per share for a total of $798,571 for April 2016, $802,348 for May 2016, and $802,348 for June 2016. When rounded in thousands, $2,403 of dividends were paid for the quarterly period.

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

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

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

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

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

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

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

DISTRIBUTABLE CASH FLOW

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:

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

$ Thousands of CDN, except per share data and percentages

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

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

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

OUTSTANDING SHARES

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

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

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

RELATED PARTY TRANSACTIONS

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

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

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

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

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

Volume Rebates

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

Linen in Service

Linen in service is recorded at cost. Operating room linen is amortized on a straight-line method over an estimated service life of 24 months. General linen is amortized based on usage which results in an estimated service life of the linen equal to

24 months. Based on past experience, management believes that a service life of 24 months is representative of the average service life of linen and would not expect a material deviation to the balance of linen in service or linen expense.

Intangible Assets

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

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

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

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

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

TERMINOLOGY

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, gain/loss on disposal and impairment charges, and income taxes.

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

NON-GAAP MEASURES

Distributable Cash Flow

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

	3 MTHS ENDED DEC 31		YEAR ENDED DEC 31	
	2016	2015	2016	2015
Net Earnings	2,197	2,158	11,527	12,068
Add				
Income tax expense	1,011	828	4,840	5,193
Finance expense	247	154	739	107
Depreciation of property, plant and equipment	2,438	2,353	9,235	7,573
Amortization of intangible assets	428	506	1,790	2,009
Loss on disposal of property, plant and equipment	86	172	105	190
EBITDA	6,407	6,171	28,236	27,140

$ Thousands of CDN

Payout Ratio

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

Debt to Total Capitalization

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

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

Off Balance Sheet Arrangements

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

> “WE LOOK FORWARD TO 2017, ESPECIALLY IN LIGHT OF SECURING TWO NEW TORONTO HEALTHCARE CONTRACTS STARTING THIS YEAR.”

CHANGES IN ACCOUNTING POLICIES

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

- IFRS 15, Revenue from Contracts with Customers, was issued in May 2014 by the IASB and supersedes IAS 18, “Revenue”, IAS 11 “Construction Contracts” and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation is in the process of evaluating the impact that IFRS 15 may have on the financial statements.
- IFRS 9, Financial Instruments, was issued in July 2014 by the IASB and supersedes IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. IFRS 9 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation is in the process of evaluating the impact that IFRS 9 may have on the financial statements.
- IFRS 2, Share-based Payment, was amended in June 2016 by IASB, addressing three classification and measurement issues. The amendment clarifies the measurement basis for cash-settled, share based payments and the accounting for modifications that change an award from cash-settled to equity settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly-equity settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share based payment and pay that amount to the tax authority. The Corporation is in the process of evaluating the impact that the amendment may have on the financial statements.
- IFRS 16, Leases, was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Corporation is in the process of evaluating the impact that IFRS 16 may have on the financial statements.

FINANCIAL INSTRUMENTS

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

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

CRITICAL RISKS AND UNCERTAINTIES

As at December 31, 2016, there are no material changes in the Corporation's risks or risk management activities since December 31, 2015. The Corporation's results of operations, business prospects, financial condition, cash dividends to Shareholders and the trading price of the Corporation's Shares are subject to a number of risks. These risk factors include: dependence on long-term contracts and the associated renewal risk thereof; the effects of market volatility and uncertainty; potential future tax changes; the competitive environment; our ability to acquire and successfully integrate and operate additional businesses; utility costs; the labour markets; the fact that our credit facility imposes numerous covenants and encumbers assets; and, environmental matters.

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

CONTROLS AND PROCEDURES

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

Disclosure Controls and Procedures

The Corporation has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements of K-Bro was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Corporation's CEO and CFO have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2016, and the CEO and CFO have concluded that these controls were operating effectively.

Internal Controls over Financial Reporting

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

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

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

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pwc

MARCH 24, 2017

INDEPENDENT AUDITOR'S REPORT

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, 2016 and 2015, 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, 2016 and 2015 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

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	DEC 31, 2016	DEC 31, 2015
ASSETS		
Current assets		
Accounts receivable	18,451	17,155
Prepaid expenses and deposits	1,472	1,061
Linen in service *(note 6)*	11,511	11,279
Total	**31,434**	**29,495**
Property, plant and equipment *(note 7)*	113,258	88,141
Intangible assets *(note 8)*	3,141	4,931
Goodwill *(note 9)*	20,456	20,456
Assets Total	**168,289**	**143,023**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities *(note 10)*	16,270	19,835
Income taxes payable	596	191
Dividends payable to shareholders	802	799
Total	**17,668**	**20,825**
Long-term debt *(note 11)*	25,800	2,349
Unamortized lease inducements *(note 13)*	1,863	696
Deferred income taxes *(note 14)*	6,286	5,913
Liabilities Total	**51,617**	**29,783**
SHAREHOLDERS' EQUITY		
Share capital	109,390	108,079
Contributed surplus	1,944	1,737
Retained earnings	5,338	3,424
Shareholder's Equity Total	**116,672**	**113,240**
Contingencies and commitments *(note 15)*	**168,289**	**143,023**

$ Thousands of CDN

APPROVED ON BEHALF OF THE CORPORATION

ROSS S. SMITH
DIRECTOR

MATTHEW HILLS
DIRECTOR

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

CONSOLIDATED STATEMENTS OF EARNINGS & COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31	*2016*	*2015*
REVENUE	**159,089**	**144,537**
Expenses		
Wages and benefits	72,247	65,213
Linen *(note 6)*	17,547	15,041
Utilities	9,776	8,788
Delivery	8,793	7,001
Occupancy costs	5,313	5,183
Materials and supplies	4,808	4,204
Repairs and maintenance	4,855	4,597
Corporate	7,514	7,370
Total	**130,853**	**117,397**
EBITDA	**28,236**	**27,140**
Other expenses		
Depreciation of property, plant and equipment *(note 7)*	9,235	7,573
Amortization of intangible assets *(note 8)*	1,790	2,009
Finance expense *(note 12)*	739	107
Loss on disposal of property, plant and equipment	105	190
Total	**11,869**	**9,879**
Earning before income taxes	**16,367**	**17,261**
Current income tax expense	4,467	4,245
Deferred income tax expense	373	948
Income tax expense	**4,840**	**5,193**
Net earnings and Comprehensive income	**11,527**	**12,068**
Net earnings per share: *(note 17)*		
Basic	1.45	1.52
Diluted	1.44	1.52
Weighted average number of shares outstanding:		
Basic	7,955,026	7,920,609
Diluted	7,986,729	7,930,492

$ Thousands of CDN, except share and per share amounts

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	TOTAL SHARE CAPITAL	CONTRIBUTED SURPLUS	RETAINED EARNINGS	TOTAL EQUITY
As at January 1, 2016	**108,079**	**1,737**	**3,424**	**113,240**
Net earnings	-	-	11,527	11,527
Dividends declared *(note 19)*	-	-	(9,613)	(9,613)
Employee share based compensation expense	-	1,518	-	1,518
Shares vested during the year	1,311	(1,311)	-	-
As at December 31, 2016	**109,390**	**1,944**	**5,338**	**116,672**
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 CDN

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

CONSOLIDATED STATEMENTS OF CASH FLOW

YEARS ENDED DECEMBER 31	*2016*	*2015*
OPERATING ACTIVITIES		
Net earnings	**11,527**	**12,068**
Depreciation of property, plant and equipment *(note 7)*	9,235	7,573
Amortization of intangible assets *(note 8)*	1,790	2,009
Lease inducements, net of amortization	1,167	(154)
Employee share based compensation expense	1,518	1,304
Loss on disposal of property, plant and equipment	105	190
Deferred income taxes	373	948
	25,715	**23,938**
Change in non-cash working capital items *(note 20)*	**(1,194)**	**(6,321)**
Cash provided by operating activities	**24,521**	**17,617**
FINANCING ACTIVITIES		
Net proceeds of revolving credit facility	23,451	2,349
Dividends paid to shareholders *(note 19)*	(9,610)	(9,567)
Cash provided (used in) by financing activities	**13,841**	**(7,218)**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment *(note 7)*	(38,367)	(23,981)
Proceeds from disposal of property, plant and equipment	5	22
Purchase of intangible assets *(note 8)*	-	(184)
Cash used in investing activities	**(38,362)**	**(24,143)**
Change in cash and cash equivalents during the year	**-**	**(13,744)**
Cash and cash equivalents, beginning of year	**-**	**13,744**
Cash and cash equivalents, end of year	**-**	**-**
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	631	282
Income taxes paid	4,062	4,297

$ Thousands of CDN

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

NOTES TO THE CONSOLIDATED STATEMENTS

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 unaudited interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors ("the Board") on March 24, 2017.

1. 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.

2. 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.

1 Years Ended December 31, 2016 and 2015.

2 $ Thousands of CDN, except per share data and percentages.

B. Principles of Consolidation

The consolidated financial statements include the Corporation, its wholly owned subsidiaries and the long-term incentive plan trust (note 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 de-recognized. Repairs and maintenance are charged to the statement of earnings during the financial period in which they are incurred.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale.

Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

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

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.

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.

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.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period and included as part of the profit and loss.

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		
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.

3. SIGNIFICANT ACCOUNTING POLICIES ADOPTED JAN 1, 2016

On January 1, 2016, the Corporation adopted the Amendments to IAS 1, Presentation of Financial Statements. IAS 1 was amended to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. Adoption of the amendments did not result in any changes to the presentation or disclosures in the financial statements.

4. NEW STANDARDS AND INTERPRETATIONS NOT YET APPLIED

The following standards have been issued but have 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.
- On June 20, 2016 the IASB issued an amendment to IFRS 2 "Share based Payment" addressing three classification and measurement issues. The amendment clarifies the measurement basis for cash-settled, share based payments and the accounting for modifications that change an award from cash-settled to equity settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly-equity settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share based payment and pay that amount to the tax authority. The Corporation is in the process of evaluating the impact that the amendment may have on the financial statements. The amendments are effective for periods beginning on or after January 1, 2018.

5. 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 fair value of CGUs to which goodwill is allocated based on value in use using discounted cash flow models that required assumptions about future cash flows, margins, and discount rates. 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.

6. LINEN IN SERVICE

	2016	2015
Balance, beginning of year	**11,279**	**9,794**
Additions	17,779	16,526
Amortization charge	(17,547)	(15,041)
Balance, end of year	**11,511**	**11,279**

7. PROPERTY, PLANT & EQUIPMENT

	LAND	BUILDINGS	LAUNDRY EQUIP[1]	OFFICE EQUIP	DELIVERY EQUIP	COMPUTER EQUIP	LEASEHOLD IMPROVEMENTS[2]	SPARE PARTS	TOTAL[3]
YEAR ENDED, DEC 31, 2016									
Opening net book amount	2,454	17,964	54,316	341	266	539	11,834	427	88,141
Additions	-	281	21,464	71	60	208	12,242	136	34,462
Disposals	-	-	(107)	-	(3)	-	-	-	(110)
Transfers	-	-	-	-	-	-	-	-	-
Depreciation charge	-	(980)	(6,056)	(108)	(73)	(370)	(1,648)	-	(9,235)
Closing net book amount	**2,454**	**17,265**	**69,617**	**304**	**250**	**377**	**22,428**	**563**	**113,258**
AT DEC 31, 2016									
Cost	2,454	19,012	110,175	710	683	1,279	32,065	563	166,941
Accumulated depreciation	-	(1,747)	(40,558)	(406)	(433)	(902)	(9,637)	-	(53,683)
Net book amount	**2,454**	**17,265**	**69,617**	**304**	**250**	**377**	**22,428**	**563**	**113,258**
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 $16,536 (2015 - $65). These assets are not available for service and accordingly are not presently being depreciated.

2 Included in leasehold improvements are assets under development in the amount of $11,547 (2015 - $0). These assets are not available for service and accordingly are not presently being depreciated.

3 Total property, plant and equipment additions include amounts in accounts payable of $1,721 (2015 - $5,626).

8. INTANGIBLE ASSETS

	HEALTHCARE CONTRACTS	HOSPITALITY CONTRACTS	COMPUTER SOFTWARE	TOTAL
YEAR ENDED, DEC 31, 2016				
Opening net book amount	3,550	1,381	-	4,931
Additions	-	-	-	-
Amortization charge	(1,043)	(747)	-	(1,790)
Closing net book amount	**2,507**	**634**	**-**	**3,141**
AT DEC 31, 2016				
Cost	19,200	8,550	927	28,677
Accumulated depreciation	(16,693)	(7,916)	(927)	(25,536)
Net book amount	**2,507**	**634**	**-**	**3,141**
YEAR ENDED, DEC 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 DEC 31, 2015				
Cost	19,200	8,550	927	28,677
Accumulated depreciation	(15,650)	(7,169)	(927)	(23,746)
Net book amount	**3,550**	**1,381**	**-**	**4,931**

9. GOODWILL

The Corporation performed its annual assessment for goodwill impairment as at December 31, 2016 in accordance with its policy described in note 2(l). Goodwill has been allocated to the following CGUs:

	2016	2015
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, 2016, the Corporation determined that: the assets and liabilities of the CGUs evaluated have not changed significantly from the prior year at December 31, 2015; 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 forecasts over a 5 year period 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% (2015 – 3%) and a pre-tax discount rate of 11% to 13% (2015 – 12% to 14%) for all CGUs. The growth rates represent management's current assessment of future industry trends and are based on both external and internal sources, as well as historical data.

The recoverable amount of each CGU was in excess of its carrying amount. Significant CGUs with an individual carrying value greater than 10% of the total consolidated carrying value include Edmonton, Calgary, Victoria, Vancouver 1 and 2. For these CGUs the recoverable amount 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.

Based on sensitivity analysis, no reasonably possible change in growth rate assumptions would cause the carrying value to exceed the recoverable amount. 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. The process for determining the recoverable amount is subjective and requires management to exercise significant judgment in determining the future growth rates and discount rates.

"K-BRO HAS INVESTED OVER $147 MILLION IN HIGH QUALITY PLANTS, INVESTMENTS THAT HAVE ALLOWED THE COMPANY TO MOVE FORWARD IN ACHIEVING ITS VISION."

10. PROVISIONS

The Corporation has recognized provisions as at December 31, 2016 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:

	2016	2015
Balance, beginning of year	**-**	**262**
Additions	-	-
Payments	-	(262)
Balance, end of year	**-**	**-**

11. LONG-TERM DEBT

	PRIME RATE LOAN[1]
At January 1, 2016	2,349
Net proceeds from debt	23,451
Repayment of debt	-
Closing Balance at December 31, 2016	**25,800**
At January 1, 2015	-
Net proceeds from debt	2,349
Closing Balance at December 31, 2015	**2,349**

1 Prime rate loan, collateralized by a general security agreement, bear interest at prime plus an interest margin dependent on certain financial ratios, with a monthly repayment of interest only, maturing on July 31, 2020 (December 31, 2015 – July 31, 2018). The additional interest margin can range between 0.0% to 1.25% dependent upon the calculated Debt/EBITDA financial ratio, with a range between 0 to 3.5x. As at December 31, 2016, the combined interest rate was 2.7% (December 31, 2015 – 2.7%).

The Corporation has a revolving credit facility of up to $85,000 of which $27,450 is utilized (including letters of credit totaling $1,650 per Note 15(a)) as at December 31, 2016). 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.

12. FINANCE EXPENSE

	2016	2015
Interest on long-term debt	372	70
Other charges, net	367	37
Total	**739**	**107**

13. UNAMORTIZED LEASE INDUCEMENTS

	2016	2015
Balance, beginning of year	839	993
Lease inducements received	1,497	-
Amortization charge	(224)	(154)
Total	**2,112**	**839**
Less current portion, included in accrued liabilities	(249)	(143)
Total	**1,863**	**696**

14. INCOME TAXES

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

	2016	2015
Current tax:		
Current tax on profits for the year	4,467	4,245
Total current tax	**4,467**	**4,245**
Deferred tax:		
Origination and reversal of temporary differences	385	708
Impact of substantively enacted rates and other	(12)	240
Total deferred tax	**373**	**948**

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:

	2016	2015
Earnings before income taxes	**16,367**	**17,261**
Non-deductible expenses	1,743	1,667
Income subject to tax	**18,110**	**18,928**
Income tax at statutory rate of 26.58% (2015 - 26.2%)	4,814	4,953
Impact of substantively enacted rates and other	26	240
Income tax expense	**4,840**	**5,193**

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

	2016	2015
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	(601)	(357)
Deferred tax asset to be recovered within 12 months	(94)	(94)
Total	**(695)**	**(451)**
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	3,982	3,441
Deferred tax liability to be recovered within 12 months	2,999	2,923
Total	**6,981**	**6,364**
Deferred tax liabilities, net	**6,286**	**5,913**

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:

	OFFERING COSTS AND OTHER	TOTAL
Deferred tax assets		
At January 1, 2015	(561)	(561)
Charged (credited) to the statement of earnings	110	110
At December 31, 2015	**(451)**	**(451)**
Charged (credited) to the statement of earnings	(244)	(244)
At December 31, 2016	**(695)**	**(695)**

	LINEN IN SERVICE	PROPERTY, PLANT AND EQUIPMENT	INTANGIBLE ASSETS AND GOODWILL	TOTAL
Deferred tax liabilities				
At January 1, 2015	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**
Charged (credited) to the statement of earnings	76	786	(245)	617
At December 31, 2016	**2,999**	**3,218**	**764**	**6,981**

15. 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 (December 31, 2015 – $1,650) which will remain outstanding for an indefinite period of time.

B. Commitments

i. Operating leases and utility commitments

At December 31, 2016, 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:

OPERATING LEASE COMMITMENTS		*UTILITY LEASE COMMITMENTS*	
2017	5,236	2017	2,078
2018	5,321	2018	1,794
2019	4,938	2019	1,287
2020	4,637	2020	1,288
2021	4,114	2021	1,274
Subsequent	31,161	Subsequent	-
Total	**55,407**	**Total**	**7,721**

ii. Linen purchase commitments

At December 31, 2016, the Corporation was committed to linen expenditure obligations in the amount of $6,926 (December 31, 2015 – $5,254) to be incurred within the next year.

iii. Property, plant and equipment commitments

At December 31, 2016, the Corporation was committed to capital expenditure obligations in the amount of $28,897 (December 31, 2015 – $3,675) to be incurred within the next year and $8,628 (December 31, 2015 – $0) to be incurred in the next two years.

16. 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

	2016	*2015*
Balance, beginning of year	**7,985,713**	**7,959,735**
Common shares issued under LTI	37,767	25,978
Balance, end of year	**8,023,480**	**7,985,713**
Unvested common shares held in trust for LTI	**44,634**	**39,716**

17. 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.

	2016	2015
Net earnings	11,527	12,068
Weighted average number of shares outstanding (thousands)	7,955	7,921
Net earnings per share, basic	1.45	1.52

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.

	2016	2015
Basic weighted average shares for the year	7,955,026	7,920,609
Dilutive effect of LTI shares	31,703	9,883
Diluted weighted average shares for the year	7,986,729	7,930,492
Net earnings	11,527	12,068
Weighted average number of shares outstanding (thousands)	7,987	7,930
Net earnings per share, diluted	1.44	1.52

18. 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.

The cost of the 44,634 (2015 – 39,716) unvested Common shares held by the LTIP Trust at December 31, 2016 was nil (2015 - nil).

	2016		2015	
	UNVESTED	VESTED	UNVESTED	VESTED
Balance, beginning of year	**39,716**	**343,109**	**45,368**	**311,479**
Issued during year	26,336	11,431	18,298	7,680
Cancelled during year	-	-	-	-
Vested during year	(21,418)	21,418	(23,950)	23,950
Balance, end of year	**44,634**	**375,958**	**39,716**	**343,109**

19. DIVIDENDS TO SHAREHOLDERS

During the year ended December 31, 2016, the Corporation declared total dividends to shareholders of $9,613 or $1.200 per share (2015 - $9,570 or $1.200 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.

20. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

YEARS ENDED DECEMBER 31	*2016*	*2015*
Accounts receivable	(1,296)	(2,595)
Linen in service	(232)	(1,485)
Prepaid expenses and deposits	(411)	(52)
Accounts payable and accrued liabilities	340	(2,137)
Income taxes payable	405	(52)
Total	**(1,194)**	**(6,321)**

1 Accounts payable and accrued liabilities exclude the net change in non-cash amounts related to the acquisition of property, plant and equipment that have been committed to but not yet paid of $3,905 (2015 - $5,626).

21. 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 $68 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 $258 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 reviewed for impairment on a specific identification basis and have been fully accounted for as at December 31, 2016.

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:

	GROSS	ALLOWANCE	NET
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**
December 31, 2016			
Current	15,470	-	15,470
31-60 days	2,730	-	2,730
Greater than 60 days	282	31	251
Total	**18,482**	**31**	**18,451**

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:

	2016	2015
Balance, beginning of year	**30**	**31**
Adjustments made during the year	1	(1)
Write-offs	-	-
Balance, end of year	**31**	**30**

E. Liquidity Risk

The Corporation's accounts payable and dividend payable are due within one year. Payments due under contractual obligations for the next five years and thereafter are as follows:

	PAYMENTS DUE BY PERIOD				
	TOTAL	< 1 YEAR	1-3 YEARS	4-5 YEARS	> 5 YEARS
Long-term debt	25,800	-	25,800	-	-
Operating lease commitments	55,407	5,236	10,259	8,751	31,161
Utility commitments	7,721	2,078	3,081	2,562	-
Linen purchase obligations	6,926	6,926	-	-	-
Property, plant and equipment commitments	37,525	28,897	8,628	-	-

The Corporation has a credit facility with a maturity date of July 31, 2020 (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.

22. 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:

	2016	*2015*
Long-term debt, including current portion	25,800	2,349
Issued and outstanding letters of credit	1,650	1,650
Funded debt	**27,450**	**3,999**
Net earnings for the trailing twelve months	11,527	12,068
Add:		
Income tax expense	4,840	5,193
Finance expense	739	107
Depreciation of property, plant and equipment	9,235	7,573
Amortization of intangible assets	1,790	2,009
Loss on disposal of property, plant and equipment	105	190
EBITDA	**28,236**	**27,140**
Funded debt to EBITDA	**0.97x**	**0.15x**

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

	2016	*2015*
EBITDA	**28,236**	**27,140**
Finance expense	739	107
Dividends to shareholders	9,613	9,570
Total	**10,352**	**9,677**
Fixed charged coverage	**2.7x**	**2.8x**

23. 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 2016 and 2015, remuneration to directors and key management personnel was as follows:

	2016	2015
Salaries and retainer fees	1,887	1,814
Short-term bonus incentives	1,080	885
Post-employment benefits	57	55
Share-based payments	1,379	1,156
Total	**4,403**	**3,910**

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, 2016, the Corporation incurred such fees totaling $138 (2015– $138).

24. EXPENSES BY NATURE

	2016	2015
Wages and benefits	77,154	69,796
Linen	17,547	15,041
Utilities	9,776	8,788
Delivery	8,793	7,001
Materials and supplies	6,083	5,581
Occupancy costs	5,505	5,375
Repairs and maintenance	4,855	4,597
Other expenses	1,140	1,218
Total	**130,853**	**117,397**

24. 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. In Calgary, the major customer is contractually committed to February 28, 2018, in Vancouver the major customer is contractually committed to March 1, 2027, and in Saskatchewan the major customer is contractually committed to June 1, 2025. For the Years ended December 31, 2016, from these four major customers the Corporation has recorded revenue of $87,286 (2015 – $74,570), representing 54.9% (2015 – 51.6%) of total revenue.

	2016		2015	
Healthcare	111,384	70.0%	98,940	68.5%
Hospitality	47,705	30.0%	45,597	31.5%
Total	**159,089**	**100.0%**	**144,537**	**100.0%**

26. 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 15, March 15 and April 13, 2017 to Shareholders of record on January 31, February 28, and March 31, 2017 respectively.

B. Additional Toronto Healthcare Contract

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

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

"AT K-BRO, WE INNOVATE AND DEVELOP NEW PROCESSES AND SYSTEMS, AND FURTHER REFINE BUSINESS DELIVERY AND PRACTICES."

CORPORATE INFORMATION

BOARD OF DIRECTORS

ROSS SMITH,
FCPA, FCA (CHAIR)
Corporate Director

MATTHEW HILLS,
MBA
Managing Director
LLM Capital Partners

STEVEN MATYAS,
BSC
President, North American Retail for Staples 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 VP & GM
(Edmonton)

KRISTIE PLAQUIN,
CPA, CA
Chief Financial Officer

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Sylvain Tremblay
Directeur Général

TRANSFER AGENT & REGISTRAR

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Edmonton, Alberta

LEGAL COUNSEL

Stikeman Elliott
Toronto, Ontario

McLennan Ross LLP
Edmonton, Alberta

PRINCIPAL BANK

TD Bank
Edmonton, Alberta

STOCK EXCHANGE LISTING

TSX: KBL

THE ANNUAL MEETING OF SHAREHOLDERS WILL BE HELD AT THE OFFICES OF STIKEMAN ELLIOTT LLP, VANCOUVER & MONTREAL BOARDROOMS, 5300 COMMERCE COURT WEST, 199 BAY STREET, TORONTO, ONTARIO ON WEDNESDAY, JUNE 14, 2017 AT 9:00 A.M. EDT

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