K·BRO

Q1, 2012 Management's Discussion & Analysis

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K-Bro Linen Inc.

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

The following Management's Discussion and Analysis ("MD&A") is supplemental to, and should be read in conjunction with, the unaudited interim condensed Consolidated Financial Statements of K-Bro Linen Inc. ("the Corporation") for the three months ended March 31, 2012 and the audited Consolidated Financial Statements, as well as the MD&A, for the year ended December 31, 2011. The Corporation and its wholly-owned subsidiaries, including K-Bro Linen Systems Inc., are collectively referred to as "K-Bro" in this MD&A.

Management is responsible for the information contained in this MD&A and its consistency with information presented to the Audit Committee and Board of Directors. All information in this document has been reviewed and approved by the Audit Committee and Board of Directors. This review was performed by management with information available as of May 2, 2012.

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) utility costs; (iii) expected impact of labour cost initiatives; and (iv) the level of capital expenditures. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements regarding forward-looking information included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A.

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

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

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INTRODUCTION

Core Business

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

Industry and Market

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

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

(thousands, except share and per share amounts)	Three Months Ended March 31, 2012	2011	2010[1]
Revenue	**$ 30,165**	$ 27,686	$ 23,932
Earnings before income taxes	**3,177**	2,153	1,385
Net earnings	**2,469**	1,556	1,427
Net earnings per share:			
Basic	**$ 0.36**	$ 0.23	$ 0.21
Diluted	**$ 0.35**	$ 0.22	$ 0.20
Total assets	**92,529**	90,473	94,323
Long-term debt	**4,000**	8,838	15,912
Dividends declared to Shareholders	**1,927**	1,927	1,927
Dividends declared to Shareholders per share	**$ 0.275**	$ 0.275	$ 0.275
Number of shares outstanding:			
Basic	**6,931,854**	6,890,899	6,935,281
Diluted	**7,003,346**	6,992,622	6,992,130

[1] K-Bro's IFRS transition date was January 1, 2010, accordingly 2010 comparative figures have been restated.

SUMMARY OF INTERIM RESULTS AND KEY EVENTS

Saskatoon Health Region

In January 2012, K-Bro earned the healthcare linen business of Saskatoon Health Region (the "Region") under a one-year contract, while the Region explores its options for longer-term processing arrangements. Processing commenced in February 2012 out of the Corporation's Calgary facility.

Effects of Economic Volatility and Uncertainty

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

- Approximately 70.5% of our revenues in the quarter were from large publicly funded healthcare customers which are geographically diversified across multiple provinces;
- K-Bro has fixed a portion of certain variable cost components such as natural gas, electricity and textile supply through forward contracts. K-Bro routinely enters into natural gas and electricity supply contracts and typically tries to align terms with existing linen processing contract terms; and,
- At March 31, 2012, K-Bro had unutilized borrowing capacity of $35.8 million or 89.4% of the revolving credit line available. K-Bro's revolving credit facility is secured with a major Canadian bank and expires on June 30, 2013.
- K-Bro's prudent approach to managing capital coupled with a conservative dividend policy has added operating cash flow and liquidity to the Corporation, thereby improving its ability to withstand the turmoil in the national and global capital markets.

Market Activities and Opportunities

K-Bro currently has several proposals pending and has entered into discussions with potential new healthcare and hospitality 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 potential acquisitions can be stated with any degree of accuracy at this time.

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 in each of these areas:

(thousands, except percentages) Category	Indicator	Q1, 2012	Q1, 2011
Growth	EBITDA(1)	**25.0%**	21.8%
	Revenue	**9.0%**	15.7%
	Distributable cash flow	**15.2%**	26.1%
Profitability	EBITDA(1)	**$ 5,597**	$ 4,479
	EBITDA margin	**18.6%**	16.2%
	Net earnings	**$ 2,469**	$ 1,556
Stability	Debt to total capitalization	**5.9%**	12.4%
	Unutilized line of credit	**$ 35,750**	$ 30,912
	Payout ratio	**44.2%**	50.8%
	Dividends declared per share	**$ 0.275**	$ 0.275
Cost containment	Wages and benefits	**45.6%**	46.2%
	Utilities	**6.6%**	7.9%
	Operating expenses	**81.4%**	83.8%

(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.*

OUTLOOK

K-Bro's focus is on profitable growth in the years to come as we execute our strategy of expanding geographically and adding new services for our customers. K-Bro is committed to building value for our shareholders, our vendors and our customers. Consistent with our business model, where both hospitality clients and healthcare institutions are under long-term contract, with pricing mainly dictated by macroeconomic factors including inflation and consumer price indices, fiscal 2012 will show increases in revenue, earnings and EBITDA compared to 2011. This belief is predicated on:

- a 2.5% core inflation rate for 2012 will help moderate certain expenses but will also result in lower price adjustments for customers with contracts subject to an annual CPI adjustment factor;
- award of the healthcare linen processing business of Saskatoon Health Region under a one-year contract with estimated annual revenues of $1.3mm, during which time the Region will explore its options for longer-term processing arrangements;
- annualization of the results from the Montréal acquisition for a full year of operations; and,
- continued focus on innovative development and process re-engineering within our internal processes resulting in operating efficiencies.

These positive factors are tempered by the increasing pressure on base wages in certain geographic areas of Canada.

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

RESULTS OF OPERATIONS

Overall Performance

In the first quarter of 2012 revenue increased by $2.5 million or 9.0% over the first quarter of 2011. Operating costs decreased to 81.4% of revenue in the current quarter compared to 83.8% in Q1, 2011. The causes of this are discussed later under *Operating Expenses*. As a result, EBITDA increased in the current quarter by $1.1 million (25.0%) over the first quarter of 2011.

Quarterly Financial Information

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

(thousands, except per share amounts and percentages)	**2012**		2011				2010	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Healthcare revenue	**21,257**	20,432	19,730	20,042	19,941	18,833	17,839	17,646
Hospitality revenue	**8,908**	8,726	11,414	8,829	7,745	7,886	9,659	8,256
Total revenue	**30,165**	29,158	31,144	28,871	27,686	26,719	27,498	25,902
Operating expenses	**24,568**	24,602	25,098	24,006	23,207	22,708	22,571	21,638
EBITDA[1]	**5,597**	4,556	6,046	4,865	4,479	4,011	4,928	4,264
EBITDA as a % of revenue	**18.6%**	15.6%	19.4%	16.9%	16.2%	15.0%	17.9%	16.5%
Depreciation and amortization	**2,207**	2,082	2,232	2,036	2,216	2,261	2,254	2,251
Financial charges	**84**	93	131	84	104	153	173	189
Loss on disposal of equipment	**129**	50	4	20	6	26	105	57
Earnings before income taxes	**3,177**	2,331	3,679	2,725	2,153	1,571	2,396	1,767
Income tax expense	**708**	688	953	722	597	11	138	55
Net earnings	**2,469**	1,643	2,726	2,003	1,556	1,560	2,257	1,712
Net earnings as a % of revenue	**8.2%**	5.6%	8.8%	6.9%	5.6%	5.8%	8.2%	6.6%
Basic earnings per share	**0.356**	0.237	0.290	0.290	0.226	0.230	0.328	0.250
Diluted earnings per share	**0.353**	0.235	0.288	0.288	0.223	0.220	0.323	0.250
Total assets	**92,529**	91,425	90,350	93,148	90,473	90,679	91,963	92,003
Total long-term financial liabilities	**8,795**	11,203	12,096	17,554	13,079	14,775	15,109	17,716
Funds provided by operations	**6,768**	3,929	8,217	2,577	4,137	3,720	5,200	4,474
Long-term debt	**4,000**	6,095	7,224	13,007	8,838	10,763	11,097	13,836
Dividends declared per share	**0.275**	0.275	0.275	0.275	0.275	0.275	0.275	0.275

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

Revenue, Earnings and EBITDA

For the three months ended March 31, 2012, K-Bro's revenue increased by 9.0% to $30.2 million from $27.7 million in the comparative period. This increase was due to a combination of the acquisition of the plant in Montréal, the new volume from the Saskatoon Health Region contract and organic growth from new volume at existing customers across the remainder of the plants. In Q1, 2012 approximately 70.5% of K-Bro's revenue was generated from healthcare institutions which is comparable to Q1, 2011 (72.0%).

Net earnings increased by $0.9 million or 58.7% from $1.6 million in Q1, 2011 to $2.5 million in Q1, 2012. Net earnings as a percentage of revenue increased to 8.2% compared to 5.6% in 2011. This margin increase is due to a flow through effect of the increase in the EBITDA margin discussed below.

EBITDA was $5.6 million for the three months ended March 31, 2012, compared to $4.5 million in the comparative period of 2011. This 25.0% improvement was a result of the new plant in Montréal, increase in volume from the new healthcare contracts in Vancouver and the new volume from the Saskatoon Health Region contract coupled with favorable variances in commodities and certain recurring and one-time favorable variances in operating expenses. Profitability as measured by net earnings and EBITDA on a year-over-year comparative basis is bolstered by several factors which are not considered to be recurring or sustainable over the entire fiscal year.

Operating Expenses

Wages and benefits increased to $13.8 million from $12.8 million but decreased as a percentage of revenue to 45.6% compared to 46.2% in 2011. The increase in the period is due to the incremental labour required to process increased volume, as well as the addition of the Montreal facility. Linen expenses increased to $3.2 million from $2.9 million and remained stable at 10.5% as a percentage of revenue.

Utility costs decreased from 7.9% in 2011 to 6.6% as a percentage of revenue in 2012. The decrease is as a result of the maturation of several natural gas forward contracts, thereby permitting K-Bro to purchase a larger percentage at the lower market rate. This favorable variance has been offset by higher spot market rates on electricity in Alberta.

Delivery costs have increased to $1.3 million or 4.4% of revenues compared to 4.3% in 2011. The increase is attributed to the difficulty in attracting skilled labor which has resulted in the usage of contracted delivery services at a premium cost. The rising cost of diesel fuel has also contributed to the increase on a year-over-year basis.

Occupancy expense has increased slightly to $1.0 million in 2012 compared to $0.9 million in 2011 but has decreased as a percentage of revenue from 3.4% in Q1, 2011 to 3.2% in Q1, 2012. The decline is driven by the incremental revenue offset by a low occupancy cost structure from the Montréal facility and fixed long term contracts in all of the plants with leased premises.

Corporate costs increased in Q1, 2012 by $0.1 million over the comparative period of 2011 and have remained stable as a percentage of revenues at 4.9%. This increase is attributable to incremental salary and benefit costs related to additional corporate office management.

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. Depreciation of property, plant and equipment and amortization of intangibles assets has decreased from the comparable period in 2011 primarily due to the use of straight line basis for amortization and some assets being fully amortized.

Financial charges for Q1, 2012 remained constant with Q1, 2011 at $0.1 million.

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 expense reflects the quarterly provision on the earnings of the Corporation which commenced in fiscal 2011.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities was $6.8 million, compared to $4.1 million of cash generated from operations during Q1, 2011. The change in cash from operations is primarily due to the flow through of the increase in revenues coupled with favorable variances in commodities as a result of hedging activities and effective cost control measures.

During Q1, 2012, cash used in financing activities amounted to $4.0 million compared to cash used in financing activities of $3.2 million in Q1, 2011. Financing activities in Q1, 2012 included $2.1 million in net repayments of long term debt and $1.9 million in dividends paid to Shareholders.

Investing activities resulted in a use of cash of $2.6 million in Q1, 2012 compared to $0.9 million in Q1, 2011. Investing activities for the current quarter related to the purchase of property, plant and equipment.

Contractual Obligations

At March 31, 2012, payments due under contractual obligations for the next five years and thereafter are as follows:

(thousands)	Payments due by Period				
	Total	**< 1 Year**	**1 - 3 Years**	**4 - 5 Years**	**> 5 Years**
Long-term debt	$ 4,000	-	4,000	-	-
Operating leases and utility commitments	$ 14,428	4,169	5,107	3,467	1,685
Linen purchase obligations	$ 3,966	3,966	-	-	-

Scheduled lease and forward utility contract payments for 2012 are $4.2 million. The operating lease obligations are secured by automotive equipment and are more fully described the in audited annual consolidated financial statements. The source of funds for these commitments will be from operating cash flow and, if necessary, the undrawn portion of the revolving credit facility.

Financial Position

(thousands, except percentages)	**March 31, 2012**	December 31, 2011
Long term debt	**$ 4,000**	$ 6,095
Shareholders' equity	**63,743**	62,933
Total capitalization	**$ 67,743**	$ 69,028
Debt to total capitalization	**5.9%**	8.8%

For the quarter ended March 31, 2012, the Corporation had a debt to total capitalization of 5.9%, unused revolving credit facility of $35.8 million and has not incurred any events of default under the terms of its credit facility agreement.

As at March 31, 2012, the Corporation had net working capital of $5.4 million compared to its working capital position of $7.2 million at December 31, 2011. The decrease in working capital is attributed to the increase in accounts payable and accrued liabilities due to additional long-term incentive ("LTI") expense and healthcare volume rebate accruals. This is partially offset by an increase in accounts receivable due to the billing cycles for the Vancouver healthcare authorities.

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 is also able to issue additional units to provide for capital spending and sustain its property, plant and equipment.

DIVIDENDS

		2012		2011	
Fiscal Period	**Payment Date**	**Amount per Share**	**Total Amount[1]**	**Amount per Unit**	**Total Amount[1]**
January	February 15	$ 0.09167	$ 642	$ 0.09167	$ 642
February	March 15	0.09167	642	0.09167	642
March	April 13	0.09167	642	0.09167	642
Q1		$ 0.27501	$ 1,927	$ 0.27501	$ 1,927
YTD		$ 0.27501	$ 1,927	$ 0.27501	$ 1,927

[1] - The total amount of dividends paid was $0.09167 per share for a total of $642,273 per month in 2012 and $642,146 per month in 2011; when rounded in thousands $1,927 of dividends were paid for each of the quarterly periods, respectively.

For the three months ended March 31, 2012, the Corporation declared $0.275 per share compared with $0.622 per Share of Distributable Cash Flow (see *Terminology*). The payout ratio for the three months was 44.2%.

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

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

DISTRIBUTABLE CASH FLOW *(see Terminology)*

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

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

(thousands, except per share amounts and percentages)	2012	2011				2010		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Cash provided by operating activities	$ 6,768	$ 3,929	$ 8,217	$ 2,577	$ 4,137	$ 3,720	$ 5,200	$ 4,474
Deduct (add):								
Net changes in non-cash working capital items(1)	2,276	(80)	2,928	(1,736)	130	(110)	452	413
Maintenance capital expenditures	134	179	9	423	224	35	173	451
Distributable cash flow	$ 4,358	$ 3,830	$ 5,280	$ 3,890	$ 3,783	$ 3,795	$ 4,575	$ 3,610
Distributable cash flow per weighted average diluted shares outstanding	$ 0.622	$ 0.548	$ 0.756	$ 0.559	$ 0.541	$ 0.543	$ 0.656	$ 0.519
Dividends declared	1,927	1,927	1,927	1,927	1,927	1,927	1,927	1,927
Dividends declared per share	0.275	0.275	0.275	0.275	0.275	0.275	0.275	0.275
Payout ratio(2)	44.2%	50.2%	36.4%	49.2%	50.8%	50.7%	41.9%	53.0%
Weighted average shares outstanding during the period, basic	6,932	6,932	6,930	6,918	6,891	6,905	6,892	6,877
Weighted average shares outstanding during the period, diluted	7,003	6,993	6,983	6,961	6,993	6,992	6,978	6,951
Trailing-twelve months ("TTM")								
Distributable cash flow	17,358	16,783	16,748	16,043	15,763	14,981	14,694	13,926
Dividends	7,706	7,706	7,706	7,706	7,706	7,706	7,706	7,706
Payout ratio(2)	44.4%	45.9%	46.0%	48.0%	48.9%	51.4%	52.4%	55.3%

(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

(2) 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 per share divided by the distributable cash flow per weighted average diluted shares outstanding.

OUTSTANDING SHARES

At March 31, 2012, the Corporation had 7,006,365 common shares outstanding. Basic and diluted weighted average number of common shares outstanding for the period ended March 31, 2012 were 6,931,854 and 7,003,346, respectively, (6,890,899 and 6,992,622, respectively, for the comparative 2011 interim periods).

In accordance with the LTI plan and in conjunction with the performance of the Corporation in the 2011 fiscal year, on May 2, 2012 the Compensation, Nominating and Corporate Governance Committee of the Board of Directors of the Corporation approved LTI compensation of $1.178 million (2011 – $1.8 million) to be paid as shares issued from treasury. As at March 31, 2012, total assets held in trust by the LTI trustee was $1.9 million (2011 – $1.6 million) and was comprised of 74,511 in unvested common shares (March 31, 2011 – 114,074) with an aggregate cost of $1.3 million (2011 – $1.6 million) and the remainder in cash. The basic net earnings per share calculation excludes the unvested common shares held by the LTI Trust.

As at May 2, 2012, there were 7,006,365 common shares issued and outstanding.

RELATED PARTY TRANSACTIONS

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by Mr. Matthew Hills, a director of the Corporation, primarily relating to acquisitions. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms. For the three months ended March 31, 2012, the Corporation incurred fees totaling $35 (three months ended March 31, 2011 – $35).

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements, in conformity with IFRS, requires K-Bro to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Management regularly evaluates these estimates and assumptions which are based on past experience and other factors that are deemed reasonable under the circumstances. This involves varying degrees of judgment and uncertainty and, therefore, amounts currently reported in the financial statements could differ in the future. There have been no changes in the accounting estimates from those reported at December 31, 2011.

TERMINOLOGY

EBITDA

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

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

	Three Months Ended March 31,	
(thousands)	**2012**	2011
Net earnings	**$ 2,469**	$ 1,556
Add:		
Income tax expense	**708**	597
Interest expense and financial charges, net	**84**	104
Depreciation of property, plant and equipment	**1,534**	1,575
Amortization of intangible assets	**673**	641
Loss on disposal of property, plant and equipment	**129**	6
EBITDA	**$ 5,597**	$ 4,479

Distributable Cash Flow

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

CHANGES IN ACCOUNTING POLICIES

The Corporation has prepared its March 31, 2012 interim condensed consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting*, as issued by the IASB and incorporated the same accounting principles and methods used in the preparation of the audited annual Consolidated Financial Statements. See Note 2 of the Corporation's audited annual Consolidated Financial Statements for more information regarding the significant accounting principles used to prepare the interim Consolidated Financial Statements.

RECENT ACCOUNTING PRONOUNCMENTS

There are no changes in accounting standards applicable to future periods other than as disclosed in the most recent audited annual Consolidated Financial Statements as at and for the year ended December 31, 2011.

FINANCIAL INSTRUMENTS

K-Bro's financial instruments at March 31, 2012 consist of accounts receivable, accounts payable and accrued liabilities 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 K-Bro to manage cashflow risk against the volatility in interest rates on its long-term debt and foreign exchange rates on its equipment purchase commitments. K-Bro does not utilize derivative financial instruments for trading or speculative purposes. K-Bro has 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, K-Bro may enter into interest rate swaps, forward contracts or option contracts.

CRITICAL RISKS AND UNCERTAINTIES

As at March 31, 2012, there are no material changes in the Corporation's risks or risk management activities since December 31, 2011. The Corporation's results of operations, business prospects, financial condition, cash dividends to Shareholders and the trading price of the Corporation's Shares are subject to a number of risks. These risk factors include: dependence on long-term contracts and the associated renewal risk thereof; the effects of market volatility and uncertainty; potential future tax changes; the competitive environment; our ability to acquire and successfully integrate and operate additional businesses; utility costs; the labour markets; the fact that our credit facility imposes numerous covenants and encumbers assets; and, environmental matters.

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

CONTROLS AND PROCEDURES

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

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 three months ended March 31, 2012, and have concluded that they are effective.

Internal Controls over Financial Reporting

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR"). As IFRS requires more judgment as compared to Canadian GAAP with respect to various accounting treatments, additional processes and controls have been put in place. These changes to financial reporting controls ensured that the Corporation has made and will continue to make the appropriate judgments and adhere to the IFRS accounting policies.

Consequently the CEO and CFO confirm that the additions to these controls that occurred during the three months ended March 31, 2012 did not materially affect, or are reasonably likely to materially affect, the Corporation's ICFR. Based upon their evaluation of these controls for the three months ended March 31, 2012, the CEO and CFO have concluded that these controls were operating effectively.

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

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

Additional information regarding K-Bro including required securities filings are available on our website at www.k-brolinen.com and on the Canadian Securities Administrators' website at www.sedar.com; the System for Electronic Document Analysis and Retrieval ("SEDAR").

Vous pouvez obtenir des renseignements supplémentaires sur la Société, y compris les documents déposés auprès des autorités de réglementation, sur notre site Web, au www.k-brolinen.com et sur le site Web des autorités canadiennes en valeurs mobilières au www.sedar.com, le site Web du Système électronique de données, d'analyse et de recherche (« SEDAR »).