



Q2, 2011
Management's
Discussion &
Analysis

dependable.

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 Consolidated Financial Statements of K-Bro Linen Inc. ("the Corporation") for the three and six months ended June 30, 2011 and the audited Consolidated Financial Statements, as well as the MD&A, for the year ended December 31, 2010. 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 August 2, 2011.

In the interest of providing current Shareholders of K-Bro Linen Inc., former unitholders ("Unitholders") of K-Bro Linen Income Fund (the "Fund") 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 non-IFRS 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 and has a total market capitalization in excess of \$140 million. 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 exceptional value to our customers. Management believes that the healthcare and hospitality sectors of the laundry and linen services industry represent a stable base of annual recurring business with opportunities for growth as additional healthcare beds and funds are made available to meet the needs of an aging demographic.

Industry Characteristics and Trends

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

Stable Industry with Moderate Cyclical – As evidenced by the stability in the number of approved hospital beds in the healthcare system and hotel rooms in the hospitality industry. Service relationships are generally formalized through contracts in the healthcare sector that are typically long term (from seven to ten years), while contracts in the hospitality sector usually range from two to five years.

Outsourcing and Privatization – Healthcare institutions and regional authorities are facing funding pressures and must continually evaluate the allocation of scarce resources. Consequently there are often advantages to healthcare institutions in outsourcing the processing of healthcare linen to private sector laundry companies such as K-Bro because of the economies of scale and significant management expertise that can be provided on a more comprehensive and cost-effective basis than customers can achieve in operating their own laundry facilities.

Fragmentation – Most Canadian cities have at least one and sometimes several private sector competitors operating in the healthcare and hospitality sectors of the laundry and linen services industry. Management believes that the presence of these operators provides consolidation opportunities for larger industry participants with the financial means to complete acquisitions.

Customers and Product Mix

K-Bro's customers include some of the largest healthcare institutions and hospitality providers in Canada. Healthcare customers include acute care hospitals and long-term care facilities. Most of K-Bro's hospitality customers (typically >250 rooms) generate between 500,000 and 3 million pounds of linen per year. Most healthcare customers generate between 500,000 pounds of linen per year for a hospital and up to 30 million pounds of linen per year for a healthcare region.

STRATEGY

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

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

Extend Core Services To New Markets – Management has demonstrated its ability to successfully expand K-Bro's business into new markets from its established bases in Edmonton and Toronto. K-Bro entered the Calgary market in 1998, the Vancouver market in 2003, the Victoria market in 2006 and the Québec City market in 2008. In January, 2010, K-Bro expanded in Vancouver through the acquisition of a second plant and continued its growth by acquiring a facility in Montréal in June 2011. 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.

SELECTED QUARTERLY FINANCIAL INFORMATION

<i>(thousands, except share and per share amounts)</i>	Three Months Ended June 30,		
	2011	2010	2009 ⁽¹⁾
Revenue	\$ 28,871	\$ 25,902	\$ 21,746
Earnings before income taxes	2,725	1,767	2,176
Net earnings	2,003	1,712	2,168
<i>Net earnings per share:</i>			
Basic	\$ 0.29	\$ 0.25	\$ 0.31
Diluted	\$ 0.29	\$ 0.25	\$ 0.31
Total assets	93,148	92,003	84,639
Long-term debt	13,007	13,836	6,735
Dividends declared to Shareholders	1,927	1,927	1,927
Dividends declared to Shareholders per share	\$ 0.275	\$ 0.275	\$ 0.275
<i>Number of shares outstanding:</i>			
Basic	6,917,854	6,877,183	6,946,242
Diluted	6,960,674	6,950,821	7,010,423

<i>(thousands, except share and per share amounts)</i>	Six Months Ended June 30,		
	2011	2010	2009 ⁽¹⁾
Revenue	\$ 56,557	\$ 49,834	\$ 43,239
Earnings before income taxes	4,877	3,151	3,682
Net earnings	3,558	3,138	3,759
<i>Net earnings per share:</i>			
Basic	\$ 0.52	\$ 0.46	\$ 0.54
Diluted	\$ 0.51	\$ 0.45	\$ 0.54
Total assets	93,148	92,003	84,639
Long-term debt	13,007	13,836	6,735
Dividends declared to Shareholders	3,853	3,853	3,853
Dividends declared to Shareholders per share	\$ 0.550	\$ 0.550	\$ 0.550
<i>Number of shares outstanding:</i>			
Basic	6,904,451	6,862,601	6,957,894
Diluted	6,947,271	6,936,239	7,022,075

⁽¹⁾ K-Bro's IFRS transition date was January 1, 2010, accordingly 2010 comparative figures have been restated; 2009 comparative information has not been restated and is presented under Canadian GAAP.

SUMMARY OF INTERIM RESULTS AND KEY EVENTS

Acquisition of Facility in Montréal, Québec

On June 30, 2011, the Corporation acquired all of the assets and operations of Les Buanderies Pierre R. Dextraze Inc. (“Dextraze”) for cash consideration of \$4.3 million, subject to closing adjustments, including an amount contingent upon achieving certain EBITDA targets. Dextraze is a commercial/industrial laundry which provides services to the hospitality industry in the Montréal area. It is one of the leading processors in Québec and currently operates 7 days per week with over 80 employees. For the year ended July 31, 2010, Dextraze recorded revenue of \$4.0 million and adjusted EBITDA of \$0.7 million. Dextraze’s customer base is focused on the premium hospitality market, including bed linen, towels and banquet linen.

Competitive RFP Process Initiated for Alberta Health Services (Edmonton)

Alberta Health Services (“AHS”) issued a formal request for proposal (“RFP”) for laundry and linen services for the City of Edmonton and surrounding areas in order to select a service provider for a ten-year term commencing in 2013 upon the conclusion of K-Bro’s current two-year contract. Under the terms and conditions, AHS may cancel the RFP process at any stage without award, and AHS may thereafter issue a new request for proposal, request for qualifications, sole source or do nothing. K-Bro submitted a formal written proposal prior to the March 10, 2011 closing date.

Market Activities and Opportunities

Activities of significance in K-Bro’s markets in 2011 have included:

Alberta – Other than noted above, there were no additional activities of significance in Alberta.

Ontario – During the quarter K-Bro was awarded the business and commenced processing the linens for a new hotel group in the GTA. Also in April, the United Food and Commercial Workers local ratified a new three-year collective bargaining agreement.

Québec – Other than noted above, there were no additional activities of significance in Québec.

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.

Effects of Economic Volatility and Uncertainty

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

- Approximately 69.4% of our revenues in the quarter were from large publicly funded healthcare customers which are geographically diversified across four 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 June 30, 2011, K-Bro had unutilized borrowing capacity of \$26.7 million or 66.9% of the revolving credit line available. K-Bro’s revolving credit facility is secured by a major Canadian bank and expires on June 30, 2012 with an option to renew for an additional year.

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	Q2, 2011	Q2, 2010	YTD 2011	YTD 2010
Growth	EBITDA ⁽¹⁾	14.1%	3.7%	17.7%	4.4%
	Revenue	11.5%	19.1%	13.5%	15.3%
	Distributable cash flow	7.8%	5.4%	16.1%	-1.0%
Profitability	EBITDA ⁽¹⁾	\$ 4,865	\$ 4,264	\$ 9,344	\$ 7,939
	EBITDA margin	16.9%	16.5%	16.5%	15.9%
	Net earnings	\$ 2,003	\$ 1,712	\$ 3,558	\$ 3,138
Stability	Debt to total capitalization	17.4%	18.2%	17.4%	18.2%
	Unutilized line of credit	\$ 26,743	\$ 25,914	\$ 26,743	\$ 25,914
	Payout ratio	49.2%	53.0%	49.8%	57.7%
	Dividends declared per share	\$ 0.275	\$ 0.275	\$ 0.550	\$ 0.550
Cost containment	Wages and benefits	46.3%	46.3%	46.2%	45.7%
	Utilities	7.1%	7.8%	7.5%	8.1%
	Operating expenses	83.1%	83.5%	83.5%	84.1%

⁽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 amortization). See Terminology.

OUTLOOK

Management's outlook for the remainder of 2011 is for a continued, gradual return to economic growth across most regions of Canada. K-Bro's focus is on 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 Shareholder value. Management believes that fiscal 2011 will continue to show a modest increase in revenue, earnings and EBITDA compared to 2010. This belief is predicated on:

- a 1.3% core inflation rate¹ at the end of June helps moderate certain expenses but will also result in lower price adjustments for customers with contracts subject to an annual consumer price index ("CPI") adjustment factor;
- decline in the unemployment rates in several areas in which K-Bro operates processing plants;
- greater caution and austere government spending will pull real GDP growth back to 2.5% in 2011, down from prior years²; and,
- continued focus on innovative development within our internal processes resulting in operating efficiencies.

In 2011, while K-Bro expects revenues to increase, margins may decline from record levels experienced in 2010 and 2009. Nonetheless, profitability is expected to remain robust and exceed recently attained levels. Consequently, management believes that the current dividend policy is sustainable for the Corporation in fiscal 2011.

¹ Statistics Canada; www.statscan.gc.ca

² The Conference Board of Canada; www.conferenceboard.ca

RESULTS OF OPERATIONS

Overall Performance

The second quarter of 2011 saw revenue increase by \$3.0 million or 11.5% over the second quarter of 2010. Operating costs decreased to 83.1% of revenue in the current quarter compared to 83.5% in Q2, 2010. The cause of this is discussed under *Operating Expenses*. As a result, EBITDA increased in the current quarter by \$0.6 million (14.1%) over the second quarter of 2010.

Quarterly Financial Information

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

<i>(thousands, except per share amounts and percentages)</i>	2011		2010				2009 ⁽¹⁾	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Healthcare revenue	20,042	19,941	18,833	17,839	17,646	17,137	16,662	16,524
Hospitality revenue	8,829	7,745	7,886	9,659	8,256	6,795	4,973	6,135
Total revenue	28,871	27,686	26,719	27,498	25,902	23,932	21,635	22,659
Operating expenses	24,006	23,207	22,708	22,571	21,638	20,256	17,830	18,521
EBITDA ⁽²⁾	4,865	4,479	4,011	4,927	4,264	3,676	3,805	4,138
EBITDA as a % of revenue	16.9%	16.2%	15.0%	17.9%	16.5%	15.4%	17.6%	18.3%
Depreciation and amortization	2,036	2,216	2,261	2,254	2,251	2,164	1,856	1,885
Financial charges	84	104	153	174	189	127	96	60
Loss on disposal of equipment	20	6	26	104	57	-	50	1
Earnings before income taxes	2,725	2,153	1,571	2,395	1,767	1,385	1,803	2,192
Income tax expense (recovery)	722	597	11	137	55	(42)	(145)	97
Net earnings	2,003	1,556	1,560	2,258	1,712	1,427	1,948	2,095
Net earnings as a % of revenue	6.9%	5.6%	5.8%	8.2%	6.6%	6.0%	9.0%	9.2%
Basic earnings per share	0.290	0.226	0.230	0.330	0.250	0.206	0.280	0.300
Diluted earnings per share	0.288	0.223	0.220	0.320	0.250	0.204	0.270	0.300
Total assets	93,148	90,473	90,679	91,963	92,003	94,323	82,816	83,565
Total long-term financial liabilities	17,554	13,079	14,775	15,109	17,716	20,010	8,500	9,676
Funds provided by operations	2,577	4,137	3,720	5,200	4,474	3,330	3,549	5,568
Long-term debt	13,007	8,838	10,763	11,097	13,836	15,912	4,043	5,107
Dividends declared per share	0.275	0.275	0.275	0.275	0.275	0.275	0.275	0.275

⁽¹⁾ K-Bro's IFRS transition date was January 1, 2010, accordingly 2010 comparative figures have been restated; 2009 comparative information has not been restated.

⁽²⁾ EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, gain or loss on disposals, financial charges and amortization). See Terminology.

Revenue, Earnings and EBITDA

For the three months ended June 30, 2011, K-Bro's revenue increased by 11.5% to \$28.9 million from \$25.9 million in the comparative period. This increase in revenue is attributed to the additional volume from the execution of new healthcare contracts in Vancouver which commenced processing in Q4, additional volume from the acquisition of the new plant in Vancouver, and additional volume from significant existing clients. In Q2, 2011 approximately 69.4% of K-Bro's revenue was generated from healthcare institutions which is comparable to Q2, 2010 (68.1%).

Net earnings increased by \$0.3 million or 17.0% from \$1.7 million in Q2, 2010 to \$2.0 million in Q2, 2011. Net earnings as a percentage of revenue increased to 6.9% compared to 6.6% in 2010. This margin increase is due to the flow through of EBITDA compounded by a decrease in depreciation and finance charges (see *Operating Expenses* for further detail).

EBITDA was \$4.9 million for the three months ended June 30, 2011, compared to \$4.3 million in the comparative period of 2010. The 14.1% improvement is a result of the flow through of the increase in revenue coupled with favorable variances in commodities as a result of hedging activities and overall effective cost control measures. This is offset by increased delivery costs due to higher fuel prices and an increase in corporate costs as a result of professional fees and higher LTIP expense (see *Operating Expenses* for further detail).

Operating Expenses

Wages and benefits increased from \$12.0 million in Q2, 2010 to \$13.4 million in Q2, 2011 but remained constant as a percentage of revenue at 46.3%. Despite the control over labor costs, the pressures continue to increase as the economy recovered and employment rates improve. Linen expenses increased to \$3.0 million from \$2.6 million but declined from 10.3% in 2010 to 10.0% as a percentage of revenue due to the additional healthcare volumes generated from the new contracts in the Vancouver area and the increase in the price of textile raw materials.

Utility costs decreased from 7.8% in 2010 to 7.1% as a percentage of revenue in 2011. The decrease is a result of the execution of natural gas and electricity hedges in order to lock in future variable costs, and in certain instances capitalization of favorable market rates for approximately 20% of the commodity that was acquired at the current market rates. This favorable variance has been offset by higher spot market rates on electricity in Alberta.

Delivery costs have increased to \$1.1 million or 4.0% of revenues compared to 3.7% in 2010. The increase is attributed primarily to the increasing price of diesel fuel.

Occupancy expense remained constant at \$0.9 million and decreased from 3.6% in Q2, 2010 to 3.2% in Q2, 2011 as a percentage of revenue. The decrease is driven by the fixed nature of these costs. Currently one of our eight plants is under lease negotiations. All remaining facilities are under long-term leases or operate on owned premises.

Corporate costs increased in Q2, 2011 by \$0.3 million over the comparative period of 2010 and have increased as a percentage of revenues from 5.1% in Q2, 2010 to 5.7% in Q2, 2011. The increase is driven by \$0.2 million in professional fees, expensed for IFRS purposes, relating to the acquisition of the new plant in Montréal and \$0.1 million in incremental corporate filing costs.

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 has decreased due to the conversion under IFRS to a straight line basis of depreciation. Amortization of intangibles assets is in line with the comparable period in 2010. Included in intangible assets are software expenses relating to the IT upgrades.

Financial charges for Q2, 2011 decreased by \$0.1 million compared to Q2, 2010. The decrease is attributable to the repayment of debt throughout fiscal 2010 after the acquisition of the second plant in Vancouver in Q1, 2010. The acquisition in Montréal that occurred in Q2, 2011 took place on the final day of the quarter and did not have a significant impact on interest expense in the period.

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 \$2.6 million, compared to \$4.5 million of cash generated from operations during Q2, 2010. The change in cash from operations is primarily due to the changes in non-cash balances relating to operations.

During Q2, 2011, cash generated from financing activities amounted to \$2.2 million compared to cash used in financing of \$4.0 million in Q2, 2010. The cash generated from financing in Q2, 2011 is attributable to the funding for the acquisition of the plant in Montréal net of \$0.1 million in repayments of long term debt and \$1.9 million in dividends paid to Shareholders.

Investing activities resulted in a use of cash of \$4.8 million in Q2, 2011 compared to \$0.5 million in Q2, 2010. Included in the Q2, 2011 investing activities is the acquisition of the new Montréal plant.

Contractual Obligations

At June 30, 2011, payments due under contractual obligations for the next five years and thereafter are as follows:

<i>(thousands)</i>	Payments due by Period				
	Total	< 1 Year	1 - 3 Years	4 - 5 Years	> 5 Years
Long-term debt	\$ 13,007	-	13,007	-	-
Operating leases and utility commitments	\$ 14,649	3,233	6,571	2,849	1,996
Linen purchase obligations	\$ 3,854	3,854	-	-	-

The operating lease obligations are secured by automotive equipment 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 the undrawn portion of the revolving credit facility.

Financial Position

<i>(thousands, except percentages)</i>	June 30, 2011	December 31, 2010
Long term debt	\$ 13,007	\$ 10,763
Shareholders' equity	61,847	62,578
Total capitalization	\$ 74,854	\$ 73,341
Debt to total capitalization	17.4%	14.7%

For the quarter ended June 30, 2011, the Corporation had a debt to total capitalization of 17.4%, unused revolving credit facility of \$26.7 million and has not incurred any events of default under the terms of its credit facility agreement.

As at June 30, 2011, the Corporation had net working capital of \$9,523 compared to its working capital position of \$8,664 at December 31, 2010. The increase in working capital is attributed to an increase in accounts receivables in Montréal, offset by the recognition of current income tax expense as a result of the transition from a fund to a corporation in the current year and the dividends payable.

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 equity to provide for capital spending and sustain its property, plant and equipment.

DIVIDENDS

Fiscal Period	Payment Date	2011		2010 ⁽¹⁾	
		Amount per Share ⁽²⁾	Total Amount ⁽²⁾	Amount per Unit ⁽²⁾	Total Amount ⁽²⁾
January	February 15	\$ 0.09167	\$ 642	\$ 0.09167	\$ 642
February	March 15	0.09167	642	0.09167	642
March	April 15	0.09167	642	0.09167	642
Q1		\$ 0.27501	\$ 1,927	\$ 0.27501	\$ 1,927
April	May 13	\$ 0.09167	\$ 642	\$ 0.09167	\$ 642
May	June 15	0.09167	642	0.09167	642
June	July 15	0.09167	642	0.09167	642
Q2		\$ 0.27501	\$ 1,927	\$ 0.27501	\$ 1,927
YTD		\$ 0.55002	\$ 3,853	\$ 0.55002	\$ 3,853

⁽¹⁾ - On January 1, 2011 the Fund completed a conversion from an income trust into a corporation. Comparative amounts for fiscal 2010 collectively refer to the distributions paid by the Fund in respect of the Units of the Fund and the Exchangeable Shares. See additional disclosure contained in the MD&A as at and for the year ended December 31, 2010 and the 2010 Annual Information Form.

⁽²⁾ - The total amount of dividends paid was \$0.09167 per share for a total of \$642,146 per month; when rounded in thousands \$1,927 of dividends were paid for the three months ended March 31, 2011 and June 30, 2011 respectively.

For the three months ended June 30, 2011, the Corporation declared \$0.275 per share compared with \$0.559 per Diluted Share of Distributable Cash Flow (see *Terminology*). The payout ratio for the three months was 49.2%.

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)*

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:

<i>(thousands, except per share amounts and percentages)</i>	2011		2010				2009 ⁽¹⁾	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Cash provided by operating activities	\$ 2,577	\$ 4,137	\$ 3,720	\$ 5,200	\$ 4,474	\$ 3,330	\$ 3,549	\$ 5,568
<i>Deduct (add):</i>								
Net changes in non-cash working capital items ⁽²⁾	(1,736)	130	(110)	452	413	(205)	(146)	1,505
Maintenance capital expenditures	423	224	35	173	451	534	187	256
Distributable cash flow	\$ 3,890	\$ 3,783	\$ 3,795	\$ 4,575	\$ 3,610	\$ 3,001	\$ 3,508	\$ 3,807
Distributable cash flow per weighted average diluted shares outstanding	\$ 0.56	\$ 0.54	\$ 0.54	\$ 0.66	\$ 0.52	\$ 0.43	\$ 0.50	\$ 0.54
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 ⁽³⁾	49.2%	50.8%	50.7%	41.9%	53.0%	64.1%	54.8%	50.5%
Weighted average shares outstanding during the period, basic	6,918	6,891	6,905	6,892	6,877	6,935	6,935	6,930
Weighted average shares outstanding during the period, diluted	6,961	6,993	6,992	6,971	6,951	6,992	6,989	6,994
Trailing-twelve months ("TTM")								
Distributable cash flow	16,043	15,763	15,557	14,694	13,926	13,741	13,994	13,476
Dividends	7,706	7,706	7,706	7,706	7,706	7,706	7,706	7,706
Payout ratio ⁽³⁾	48.0%	48.9%	49.5%	52.4%	55.3%	56.1%	55.1%	57.2%

⁽¹⁾ K-Bro's IFRS transition date was January 1, 2010, accordingly 2010 comparative figures have been restated; 2009 comparative information has not been restated.

⁽²⁾ 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.

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

OUTSTANDING SHARES

As at June 30, 2011, the Corporation had 7,004,973 common shares outstanding. The basic and the diluted weighted average number of common shares outstanding for the three months ended June 30, 2011 were 6,917,854 and 6,960,674, respectively, (6,877,183 and 6,950,821, respectively for the comparative 2010 periods).

In accordance with the LTIP agreement and in conjunction with the performance of the Fund in the prior fiscal year, the Compensation, Nominating and Corporate Governance Committee of the Board of Directors of the Corporation approved LTIP compensation of \$1.8 million (2010 – \$1.4 million) to be paid as \$0.3 million in common shares and \$1.5 million in cash. As at June 30, 2011, total assets held in trust by the LTIP trustee was \$1.9 million (2010 – \$1.6 million) and was comprised of 74,511 in unvested common shares (June 30, 2010 – 114,074) with an aggregate cost of \$1.3 million (2010 – \$1.6 million) and the remainder in cash. The basic net earnings per share calculation excludes the unvested common shares held by the LTIP Trust.

As at August 2, 2011, there were 7,004,973 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 and six month periods ended June 30, 2011, the Corporation incurred fees totaling \$34,500 and \$69,000, respectively (three and six months ended June 30, 2010 – \$34,500 and \$69,000).

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. Other than disclosed in note 2(f) of the unaudited interim Consolidated Financial Statements as at and for the periods ended June 30, 2011, there have been no changes in the accounting estimates from those reported in the 2010 management's discussion and analysis.

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, 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.

<i>(thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net earnings	\$ 2,003	\$ 1,712	\$ 3,558	\$ 3,138
<i>Add:</i>				
Income tax expense	722	55	1,319	13
Interest expense and financial charges, net	84	189	189	316
Depreciation of property, plant and equipment	1,395	1,611	2,970	3,157
Amortization of intangible assets	641	640	1,282	1,258
Loss on disposal of property, plant and equipment	20	57	26	57
EBITDA	\$ 4,865	\$ 4,264	\$ 9,344	\$ 7,939

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 June 30, 2011 unaudited interim Consolidated Financial Statements in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*, and with IAS 34, *Interim Financial Reporting*, as issued by the IASB. Previously, the Corporation prepared its annual financial statements in accordance with Canadian GAAP. The adoption of IFRS has not had a material impact on the operations, strategic decisions, cash flow or capital expenditures of the Corporation.

The Corporation's IFRS accounting policies are provided in note 2 to the unaudited interim Consolidated Financial Statements. In addition, note 18 to the interim Consolidated Financial Statements presents reconciliations between the Corporation's 2010 Canadian GAAP results and the 2010 IFRS results. The reconciliations include the consolidated statement of financial position as at June 30, 2010, and consolidated statements of earnings, deficit and comprehensive income for the three and six months ended June 30, 2010.

The following discussion explains the significant differences between K-Bro's previous Canadian GAAP accounting policies and those applied by the Corporation under IFRS. IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for second-time adopters. The accounting policies followed in these unaudited interim Consolidated Financial Statements are the same as those applied in the Corporation's interim Consolidated Financial Statements for the period ended March 31, 2011.

Spare Parts

Spare parts and servicing equipment were carried as inventory under Canadian GAAP and recognized in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when K-Bro expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they should be accounted for as PPE.

Under IFRS spare parts under five thousand dollars will be expensed as incurred, since they are not significant enough to consider capitalizing and tracking as discrete capital assets, and items over five thousand dollars will be capitalized into a new category of PPE called Spare Parts. Most spare parts used by K-Bro are specific to an item of PPE, and therefore would meet the criteria to be recognized as PPE.

Business Acquisition Costs

Under IFRS business acquisition costs are accounted for as expenses in the periods in which the costs are incurred and the services are received. Acquisition related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees, advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. Previously under Canadian GAAP acquisition costs were treated as part of the purchase price in an acquisition and accordingly the acquisition costs for the second Vancouver plant were capitalized as part of the acquired assets. Upon adoption of IFRS in Q1, 2011 this amount has been retrospectively restated.

Income Tax

Deferred income taxes have been adjusted to reflect the tax effect arising from the differences between IFRS and previous Canadian GAAP. Upon transition to IFRS, the Corporation recognized a \$0.1 million reduction in the deferred income tax balance with a corresponding increase to retained earnings. For the twelve months ended December 31, 2010, the application of the IFRS adjustments discussed above resulted in a \$0.2 million increase to the Corporation's deferred income tax expense and a corresponding decrease to K-Bro's previous Canadian GAAP net earnings.

RECENT ACCOUNTING PRONOUNCEMENTS

All accounting standards effective for periods beginning on or after January 1, 2011 have been adopted as part of the transition to IFRS. Additionally there are new IFRS pronouncements have been issued but are not effective and may have an impact on the Corporation. See note 3 to the unaudited interim Consolidated Financial Statements for the periods ended June 30, 2011.

FINANCIAL INSTRUMENTS

K-Bro's financial instruments at June 30, 2011 consist of accounts receivable, accounts payable and accrued liabilities, dividend payable to Shareholders 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 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.

It is K-Bro's policy to document all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. K-Bro also assesses, both at the hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair value or cash flows of hedged items. K-Bro's interest rate swaps, forward contracts or option contracts are designated as hedges when the underlying risks of the hedged and hedging instruments offset to manage K-Bro's exposure. Gains or losses relating to such contracts are accounted for as discussed above.

CRITICAL RISKS AND UNCERTAINTIES

As at June 30, 2011, there are no material changes in the Corporation's risks or risk management activities since December 31, 2010. 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 six months ended June 30, 2011, 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 six months ended June 30, 2011 did not materially affect, or are reasonably likely to materially affect, the Corporation's ICFR. Based upon their evaluation of these controls for the six months ended June 30, 2011, 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 »).