



Q2, 2012
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 condensed Consolidated Financial Statements of K-Bro Linen Inc. ("the Corporation") for the three and six months ended June 30, 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 August 9, 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

<i>(thousands, except share and per share amounts)</i>	Three Months Ended June 30,		
	2012	2011	2010
Revenue	\$ 31,526	\$ 28,871	\$ 25,902
Earnings before income taxes	4,084	2,725	1,767
Net earnings	2,963	2,003	1,712
<i>Net earnings per share:</i>			
Basic	\$ 0.42	\$ 0.29	\$ 0.25
Diluted	\$ 0.42	\$ 0.29	\$ 0.25
Total assets	90,505	93,148	92,003
Long-term debt	7,113	13,007	13,836
Dividends declared to Shareholders	1,994	1,927	1,927
Dividends declared to Shareholders per share	\$ 0.283	\$ 0.275	\$ 0.275
<i>Number of shares outstanding:</i>			
Basic	6,979,281	6,917,854	6,877,183
Diluted	7,009,458	6,960,674	6,950,821

<i>(thousands, except share and per share amounts)</i>	Six Months Ended June 30,		
	2012	2011	2010
Revenue	\$ 61,691	\$ 56,557	\$ 49,834
Earnings before income taxes	7,261	4,877	3,151
Net earnings	5,432	3,558	3,138
<i>Net earnings per share:</i>			
Basic	\$ 0.78	\$ 0.52	\$ 0.46
Diluted	\$ 0.78	\$ 0.51	\$ 0.45
Total assets	90,505	93,148	92,003
Long-term debt	7,113	13,007	13,836
Dividends declared to Shareholders	3,921	3,853	3,853
Dividends declared to Shareholders per share	\$ 0.558	\$ 0.550	\$ 0.550
<i>Number of shares outstanding:</i>			
Basic	6,955,567	6,904,451	6,862,601
Diluted	6,985,744	6,947,271	6,936,239

SUMMARY OF INTERIM RESULTS AND KEY EVENTS

Saskatoon Health Region Contract

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. Under the terms of the original agreement, K-Bro was awarded a portion of the total volume processed with the remainder being processed internally. During the quarter, K-Bro was awarded the remaining volume for the Region and extended the contract to May 2013.

Alberta Health Services Contract

In May 2012, K-Bro was awarded a ten-year contract with Alberta Health Services (“AHS”) for laundry and linen services for the Edmonton and surrounding areas. This ten-year contract extends the existing relationship between the Corporation and AHS and is a result of a competitive request for proposal process that began in February 2011.

The contract encompasses a comprehensive linen supply and service program covering general, operating room and specialty linens as well as on-site services at certain facilities. Services under the terms and conditions of this contract will commence on April 1, 2013. The contract is renewable for an additional five years at AHS’ option. The new ten-year contract also includes certain price concessions as compared to the existing services agreement which concludes in fiscal 2013.

Concurrently with the signing of a services agreement with AHS, the Corporation entered into a long-term lease for the development of a new production plant in Edmonton. Project management planning has commenced for the relocation of the Corporation's Edmonton operation to an upgraded, more efficient facility. The total expected costs of commissioning a new facility are expected to range from \$20 to \$25 million, including the addition of new efficiency enhancing equipment, with immediate returns anticipated from reduced labour, lower energy consumption and other work-flow improvements.

Management believes that efficiencies arising from this capital project will directly offset the price concessions made under the terms of the new AHS contract, as well as additional carrying costs of any associated debt. The Corporation intends to finance the construction through its existing credit facilities. It is anticipated that the new facility will be fully operational by Q3, 2013.

Common Share Dividend Increase

In May 2012, K-Bro declared a monthly dividend amount of \$0.0958 per common share which represented an increase of 4.5% from the previous monthly amount of \$0.09167 per common share. On an annualized basis the dividend is equivalent to \$1.15 per common share (up from the former annual dividend of \$1.10 per common share).

Effects of Economic Volatility and Uncertainty

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

- Approximately 68.9% of its 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 June 30, 2012, K-Bro had unutilized borrowing capacity of \$32.6 million or 81.6% of the revolving credit line available. K-Bro’s revolving credit facility is secured with a major Canadian bank and was extended during the quarter to July 31, 2014.
- K-Bro’s prudent approach to managing capital has added cash flow and liquidity to the Corporation, thereby improving its ability to withstand the turmoil in the national and global capital markets.

KEY PERFORMANCE DRIVERS

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

(thousands, except percentages)

Category	Indicator	Q2, 2012	Q2, 2011	YTD 2012	YTD 2011
Growth	EBITDA ⁽¹⁾	31.6%	14.1%	28.4%	17.7%
	Revenue	9.2%	11.5%	9.1%	13.5%
	Distributable cash flow	30.3%	7.8%	22.8%	16.1%
Profitability	EBITDA ⁽¹⁾	\$ 6,404	\$ 4,865	\$ 12,001	\$ 9,344
	EBITDA margin	20.3%	16.9%	19.5%	16.5%
	Net earnings	\$ 2,963	\$ 2,003	\$ 5,432	\$ 3,558
Stability	Debt to total capitalization	9.8%	17.4%	9.8%	17.4%
	Unutilized line of credit	\$ 32,637	\$ 26,743	\$ 32,637	\$ 26,743
	Payout ratio	39.2%	49.2%	41.4%	49.8%
	Dividends declared per share	\$ 0.283	\$ 0.275	\$ 0.558	\$ 0.550
Cost containment	Wages and benefits	45.7%	46.3%	45.6%	46.2%
	Utilities	6.1%	7.1%	6.3%	7.5%
	Operating expenses	79.7%	83.1%	80.5%	83.5%

⁽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. Because most hospitality clients and healthcare institutions are under long-term contract, with pricing mainly dictated by macroeconomic factors including inflation and consumer price indices, the second half fiscal 2012 will show increases in revenue, earnings and EBITDA compared to the same period of 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 \$3.4 million, during which time the Region will explore its options for longer-term processing arrangements; and,
- continued focus on innovative development and process re-engineering within our internal processes and addition of strategic capital expenditures 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 second quarter of 2012 revenue increased by \$2.6 million or 9.2% over the second quarter of 2011. Operating costs decreased to 79.7% of revenue in the current quarter compared to 83.1% in Q2, 2011. The causes of this are discussed later under *Operating Expenses*. As a result, EBITDA increased in the current quarter by \$1.5 million (31.6%) over the second 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:

<i>(thousands, except per share amounts and percentages)</i>	2012		2011				2010	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Healthcare revenue	21,713	21,257	20,432	19,730	20,042	19,941	18,833	17,839
Hospitality revenue	9,813	8,908	8,726	11,414	8,829	7,745	7,886	9,659
Total revenue	31,526	30,165	29,158	31,144	28,871	27,686	26,719	27,498
Operating expenses	25,122	24,568	24,602	25,098	24,006	23,207	22,708	22,571
EBITDA ⁽¹⁾	6,404	5,597	4,556	6,046	4,865	4,479	4,011	4,928
EBITDA as a % of revenue	20.3%	18.6%	15.6%	19.4%	16.9%	16.2%	15.0%	17.9%
Depreciation and amortization	2,263	2,207	2,082	2,232	2,036	2,216	2,261	2,254
Financial charges	67	84	93	131	84	104	153	173
Loss (gain) on disposal of equipment	(10)	129	50	4	20	6	26	105
Earnings before income taxes	4,084	3,177	2,331	3,679	2,725	2,153	1,571	2,396
Income tax expense	1,121	708	688	953	722	597	11	138
Net earnings	2,963	2,469	1,643	2,726	2,003	1,556	1,560	2,257
Net earnings as a % of revenue	9.4%	8.2%	5.6%	8.8%	6.9%	5.6%	5.8%	8.2%
Basic earnings per share	0.424	0.356	0.237	0.290	0.290	0.226	0.230	0.328
Diluted earnings per share	0.423	0.353	0.235	0.288	0.288	0.223	0.220	0.323
Total assets	90,505	92,529	91,425	90,350	93,148	90,473	90,679	91,963
Total long-term financial liabilities	11,963	8,795	11,203	12,096	17,554	13,079	14,775	15,109
Funds provided by operations	(110)	6,768	3,929	8,217	2,577	4,137	3,720	5,200
Long-term debt	7,113	4,000	6,095	7,224	13,007	8,838	10,763	11,097
Dividends declared per share	0.283	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 June 30, 2012, K-Bro's revenue increased by 9.2% to \$31.5 million from \$28.9 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 and price increases at existing customers across the remainder of the plants. In Q2, 2012 approximately 68.9% of K-Bro's revenue was generated from healthcare institutions which is comparable to Q2, 2011 (69.4%).

Net earnings increased by \$1.0 million or 47.9% from \$2.0 million in Q2, 2011 to \$3.0 million in Q2, 2012. Net earnings as a percentage of revenue increased to 9.4% compared to 6.9% in 2011. This margin increase is due to a flow through effect of the increase in the EBITDA margin discussed below.

EBITDA was \$6.4 million for the three months ended June 30, 2012, compared to \$4.9 million in the comparative period of 2011. This 31.6% improvement was a result of the new plant in Montréal and the new volume from the Saskatoon Health Region contract coupled with favorable variances in utilities.

Operating Expenses

Wages and benefits increased to \$14.4 million from \$13.4 million but decreased as a percentage of revenue to 45.7% compared to 46.3% 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 \$3.1 million from \$3.0 million and slightly decreased from 10.3% to 10.0% as a percentage of revenue.

Utility costs decreased from 7.1% in 2011 to 6.1% 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.

Delivery costs have increased to \$1.4 million or 4.3% of revenues compared to 4.0% in 2011. The rising cost of diesel fuel has contributed to the increase on a year-over-year basis. Additionally the delivery of linens to Saskatoon Health Region has increased delivery expenses as these services are being performed by the Company's Calgary facility.

Occupancy expense has increased slightly to \$1.0 million in 2012 compared to \$0.9 million in 2011 but has decreased slightly as a percentage of revenue from 3.2% in Q2, 2011 to 3.1% in Q2, 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 decreased in Q2, 2012 by \$0.2 million over the comparative period of 2011 and decreased as a percentage of revenues from 5.7% in Q2, 2011 to 4.5% in Q2, 2012. In the prior year comparative period, acquisition costs associated with the acquisition of the Montréal plant ineligible for capitalization were expensed and incurred as corporate 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 and amortization of intangibles assets has increased from the comparable period in 2011 primarily due to the addition of the new facility in Montréal.

Financial charges for Q2, 2012 remained constant with Q2, 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

In Q2, 2012 cash used in operating activities was \$0.1 million, compared to cash generated by operating activities of \$2.6 million during Q2, 2011. The change in cash from operations is primarily due to the payment of corporate income taxes to which the Corporation was previously exempt due to its income trust status, as well as the payment of a number of volume rebates and discounts.

During Q2, 2012, cash generated from financing activities amounted to \$1.1 million compared to cash generated in financing activities of \$2.2 million in Q2, 2011. Financing activities in Q2, 2012 included \$3.1 million in net proceeds of long term debt and \$2.0 million in dividends paid to Shareholders.

Investing activities resulted in a use of cash of \$1.2 million in Q2, 2012 compared to \$4.8 million in Q2, 2011. Investing activities for the current quarter related to the purchase of property, plant and equipment. Investing activities in Q2, 2011 included the acquisition of the new plant in Montréal.

Contractual Obligations

At June 30, 2012, 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	\$ 7,113	-	7,113	-	-
Operating leases and utility commitments	\$ 22,439	2,754	7,147	5,629	6,909
Linen purchase obligations	\$ 2,626	2,626	-	-	-
Property, plant and equipment commitments	\$ 1,907	1,907	-	-	-

Scheduled lease and forward utility contract payments for 2012 are \$2.8 million. 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, if necessary, the undrawn portion of the revolving credit facility.

Subsequent to the period ended June 30, 2012, the Corporation entered into additional purchase commitments for the acquisition of laundry equipment for a new plant in Edmonton for an estimated value of \$14.5 million. The Corporation expects to take delivery of the new equipment over the next 12 months which will replace assets that have reached the end of their useful lives.

Financial Position

<i>(thousands, except percentages)</i>	June 30, 2012	December 31, 2011
Long term debt	\$ 7,113	\$ 6,095
Shareholders' equity	65,669	62,933
Total capitalization	\$ 72,782	\$ 69,028
Debt to total capitalization	9.8%	8.8%

For the quarter ended June 30, 2012, the Corporation had a debt to total capitalization of 9.8%, unused revolving credit facility of \$32.6 million and has not incurred any events of default under the terms of its credit facility agreement.

As at June 30, 2012, the Corporation had net working capital of \$11.5 million compared to its working capital position of \$7.2 million at December 31, 2011. The increase in working capital is attributed to the decreased accounts payable and accrued liabilities due to payment of volume rebates and discounts and the issuance of LTI compensation in Q2, 2012 and the decrease in income taxes payable due to the payment of the 2011 corporate taxes.

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

Fiscal Period	Payment Date	# of Shares outstanding	2012		2011	
			Amount per Share	Total Amount ⁽¹⁾	Amount per Unit	Total Amount ⁽¹⁾
January	February 15	7,006,365	\$ 0.09167	\$ 642	\$ 0.09167	\$ 642
February	March 15	7,006,365	0.09167	642	0.09167	642
March	April 13	7,006,365	0.09167	642	0.09167	642
Q1			\$ 0.27501	\$ 1,927	\$ 0.27501	\$ 1,927
April	May 15	7,006,365	\$ 0.09167	\$ 642	\$ 0.09167	\$ 642
May	June 15	7,055,207	0.09583	676	0.09167	642
June	July 13	7,055,207	0.09583	676	0.09167	642
Q2			\$ 0.28334	\$ 1,994	\$ 0.27501	\$ 1,927
YTD			\$ 0.55835	\$ 3,921	\$ 0.55002	\$ 3,853

⁽¹⁾ - The total amount of dividends paid was \$0.09167 per share for a total of \$642,273 per month for Jan - Apr 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 June 30, 2012, the Corporation declared \$0.283 per share compared with \$0.723 per Share of Distributable Cash Flow (see *Terminology*). The payout ratio for the three months was 39.2%.

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 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:

<i>(thousands, except per share amounts and percentages)</i>	2012		2011				2010	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Cash provided by operating activities	\$ (110)	\$ 6,768	\$ 3,929	\$ 8,217	\$ 2,577	\$ 4,137	\$ 3,720	\$ 5,200
<i>Deduct (add):</i>								
Net changes in non-cash working capital items ⁽¹⁾	(5,409)	2,276	(80)	2,928	(1,736)	130	(110)	452
Maintenance capital expenditures	232	134	179	9	423	224	35	173
Distributable cash flow	\$ 5,067	\$ 4,358	\$ 3,830	\$ 5,280	\$ 3,890	\$ 3,783	\$ 3,795	\$ 4,575
Distributable cash flow per weighted average diluted shares outstanding	\$ 0.723	\$ 0.622	\$ 0.548	\$ 0.756	\$ 0.559	\$ 0.541	\$ 0.543	\$ 0.656
Dividends declared	1,994	1,927	1,927	1,927	1,927	1,927	1,927	1,927
Dividends declared per share	0.283	0.275	0.275	0.275	0.275	0.275	0.275	0.275
Payout ratio ⁽²⁾	39.2%	44.2%	50.2%	36.4%	49.2%	50.8%	50.7%	41.9%
Weighted average shares outstanding during the period, basic	6,979	6,932	6,932	6,930	6,918	6,891	6,905	6,892
Weighted average shares outstanding during the period, diluted	7,009	7,003	6,993	6,983	6,961	6,993	6,992	6,978
Trailing-twelve months ("TTM")								
Distributable cash flow	18,535	17,358	16,783	16,748	16,043	15,763	14,981	14,694
Dividends	7,774	7,706	7,706	7,706	7,706	7,706	7,706	7,706
Payout ratio ⁽²⁾	41.9%	44.4%	45.9%	46.0%	48.0%	48.9%	51.4%	52.4%

⁽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 June 30, 2012, the Corporation had 7,055,207 common shares outstanding, including 36,626 shares issued but held as unvested treasury shares. Basic and diluted weighted average number of common shares outstanding for the three months ended June 30, 2012 were 6,979,281 and 7,009,458, respectively, (6,917,854 and 6,960,674, 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 \$1.2 million (2011 - \$1.8 million) to be paid as shares issued from treasury. As at June 30, 2012, the value of the shares held in trust by the LTI trustee was \$1.2 million (2011 - \$1.6 million) which was comprised of 48,192 in unvested common shares (June 30, 2011 - 74,511) with an aggregate cost of \$0.3 million (2011 - \$1.9 million). The basic net earnings per share calculation excludes the unvested common shares held by the LTI Trust.

As at August 9, 2012, there were 7,055,207 common shares issued and outstanding including 36,626 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, 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, 2012, the Corporation incurred fees totaling \$34,500 and \$69,000, respectively (three and six months ended June 30, 2011 – \$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. 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.

<i>(thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net earnings	\$ 2,963	\$ 2,003	\$ 5,432	\$ 3,558
<i>Add:</i>				
Income tax expense	1,121	722	1,829	1,319
Interest expense and financial charges, net	67	84	150	189
Depreciation of property, plant and equipment	1,590	1,395	3,125	2,970
Amortization of intangible assets	673	641	1,346	1,282
Loss (gain) on disposal of property, plant and equipment	(10)	20	119	26
EBITDA	\$ 6,404	\$ 4,865	\$ 12,001	\$ 9,344

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, 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. There have been no changes in accounting policies during the six-months ended June 30, 2012.

RECENT ACCOUNTING PRONOUNCEMENTS

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 June 30, 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 June 30, 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 June 30, 2012, and have concluded that they are effective.

Internal Controls over Financial Reporting

There were no changes in internal controls over financial reporting (“ICFR”) during the three month period ended June 30, 2012 that materially affected, or are reasonably likely to materially affect, the Corporation’s ICFR. The CEO and the CFO have evaluated these controls for the three months ended June 30, 2012 and have concluded that the controls are operating effectively. A discussion of the internal controls over financial reporting can be found under the MD&A that accompany the audited consolidated financial statements for the year ended December 31, 2011.

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 »).