Q3, 2012 Management's Discussion & Analysis

dependable.

K-Bro Linen Inc.

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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 nine months ended September 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 November 7, 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) expected impact of labour cost initiatives; and (iii) the level of capital expenditures. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements regarding forward-looking information included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A.

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

This MD&A also makes reference to certain measures in this document that do not have any standardized meaning as prescribed by IFRS 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 Victoria, Vancouver, Calgary, Edmonton, Toronto, Montréal and Québec City.

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

	Three Months Ended September 30,		
(thousands, except share and per share amounts)	**2012**	2011	2010
Revenue	**$ 33,013**	$ 31,144	$ 27,498
Earnings before income taxes	**4,183**	3,679	2,396
Net earnings	**2,959**	2,726	2,258
Net earnings per share:			
Basic	**$ 0.42**	$ 0.39	$ 0.33
Diluted	**$ 0.42**	$ 0.39	$ 0.32
Total assets	**94,166**	90,350	91,713
Long-term debt	**7,787**	7,224	11,097
Dividends declared to Shareholders	**2,028**	1,927	1,927
Dividends declared to Shareholders per share	**$ 0.288**	$ 0.275	$ 0.275
Number of shares outstanding:			-
Basic	**7,007,015**	6,930,462	6,891,583
Diluted	**7,040,017**	6,982,501	6,977,630

	Nine Months Ended September 30,		
(thousands, except share and per share amounts)	**2012**	2011	2010
Revenue	**$ 94,704**	$ 87,701	$ 77,331
Earnings before income taxes	**11,444**	8,557	5,546
Net earnings	**8,391**	6,285	5,395
Net earnings per share:			
Basic	**$ 1.20**	$ 0.91	$ 0.78
Diluted	**$ 1.20**	$ 0.90	$ 0.77
Total assets	**94,166**	90,350	91,713
Long-term debt	**7,787**	7,224	11,097
Dividends declared to Shareholders	**5,949**	5,780	5,780
Dividends declared to Shareholders per share	**$ 0.846**	$ 0.825	$ 0.825
Number of shares outstanding:			
Basic	**6,972,843**	6,913,217	6,910,245
Diluted	**7,005,845**	6,965,256	6,996,292

SUMMARY OF 2012 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. The agreement was subsequently extended to May 2013 and K-Bro was awarded the remaining volume once processed internally by the Region.

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. 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 that concludes in fiscal 2013. Management believes that efficiencies arising from a newly designed Edmonton facility 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.

Effects of Economic Uncertainty

A significant degree of uncertainty exists with respect to the development of a new Edmonton facility and the resultant decommissioning of the old plant. Management estimates that the costs to commission a new facility are expected to be approximately $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. Costs associated with the new facility will be incurred from Q2, 2012 through Q2, 2013 with over half of the expenditure forecast in Q1, 2013.

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

- Approximately 64.9% 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 September 30, 2012, K-Bro had unutilized borrowing capacity of $31.8 million or 79.5% of the revolving credit line available.
- 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	Q3, 2012	Q3, 2011	YTD 2012	YTD 2011
Growth	EBITDA[1]	**11.5%**	22.7%	**21.8%**	19.6%
	Revenue	**6.0%**	13.3%	**8.0%**	13.4%
	Distributable cash flow	**0.0%**	15.4%	**13.5%**	15.8%
Profitability	EBITDA[1]	**$ 6,739**	$ 6,046	**$ 18,740**	$ 15,391
	EBITDA margin	**20.4%**	19.4%	**19.8%**	17.5%
	Net earnings	**$ 2,959**	$ 2,726	**$ 8,391**	$ 6,285
Stability	Debt to total capitalization	**10.4%**	10.3%	**10.4%**	10.3%
	Unutilized line of credit	**$ 31,813**	$ 32,526	**$ 31,813**	$ 32,526
	Payout ratio	**38.3%**	36.4%	**40.2%**	44.4%
	Dividends declared per share	**$ 0.288**	$ 0.275	**$ 0.846**	$ 0.825
Cost containment	Wages and benefits	**47.0%**	46.3%	**46.1%**	46.3%
	Utilities	**6.7%**	7.6%	**6.4%**	7.5%
	Operating expenses	**79.6%**	80.6%	**80.2%**	82.5%

[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 customers and our employees. 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, Management believes that the fourth quarter of 2012 will show a slight increase in revenue, earnings and EBITDA compared to 2011.

In 2013 K-Bro will commission a new Edmonton facility in a new location and also decommission the former plant site. As a result of the development of the new facility Management expects efficiency and productivity of its Edmonton operations to decline in Q2 and Q3, 2013, and improve once the transition between the two sites is complete. Management believes that EBITDA margin will be negatively impacted during the transition period by up to 3% on a consolidated basis.

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

Year-to-date 2012 revenue increased by $7.0 million or 8.0% over the comparative period of 2011. Operating costs decreased to 80.2% of revenue in the nine-months compared to 82.5% in the same period of 2011. The causes of this are discussed later under *Operating Expenses*. As a result, EBITDA increased in the nine-month period by $3.3 million (21.8%) over the comparative period of 2011.

Quarterly Financial Information

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

(thousands, except per share amounts and percentages)	2012			2011				2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Healthcare revenue	**21,418**	21,713	21,257	20,432	19,730	20,042	19,941	18,833
Hospitality revenue	**11,595**	9,813	8,908	8,726	11,414	8,829	7,745	7,886
Total revenue	**33,013**	31,526	30,165	29,158	31,144	28,871	27,686	26,719
Operating expenses	**26,274**	25,122	24,568	24,602	25,098	24,006	23,207	22,708
EBITDA[1]	**6,739**	6,404	5,597	4,556	6,046	4,865	4,479	4,011
EBITDA as a % of revenue	**20.4%**	20.3%	18.6%	15.6%	19.4%	16.9%	16.2%	15.0%
Depreciation and amortization	**2,283**	2,263	2,207	2,082	2,232	2,036	2,216	2,261
Financial charges	**272**	67	84	93	131	84	104	153
Loss (gain) on disposal of equipment	**1**	(10)	129	50	4	20	6	26
Earnings before income taxes	**4,183**	4,084	3,177	2,331	3,679	2,725	2,153	1,571
Income tax expense	**1,224**	1,121	708	688	953	722	597	11
Net earnings	**2,959**	2,963	2,469	1,643	2,726	2,003	1,556	1,560
Net earnings as a % of revenue	**9.0%**	9.4%	8.2%	5.6%	8.8%	6.9%	5.6%	5.8%
Basic earnings per share	**0.422**	0.424	0.356	0.237	0.393	0.290	0.226	0.230
Diluted earnings per share	**0.420**	0.423	0.353	0.235	0.390	0.288	0.223	0.220
Total assets	**94,166**	90,505	92,529	91,425	90,350	93,148	90,473	90,679
Total long-term financial liabilities	**12,830**	11,963	8,795	11,203	12,096	17,554	13,079	14,775
Funds provided by operations	**6,223**	(110)	6,768	3,929	8,217	2,577	4,137	3,720
Long-term debt	**7,787**	7,113	4,000	6,095	7,224	13,007	8,838	10,763
Dividends declared per share	**0.288**	0.283	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 September 30, 2012, K-Bro's revenue increased by 6.0% to $33.0 million from $31.1 million in the comparative period. This increase was due to a combination of 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 Q3, 2012 approximately 64.9% of K-Bro's revenue was generated from healthcare institutions which is comparable to Q3, 2011 (63.4%).

Net earnings increased by $0.2 million or 8.5% from $2.7 million in Q3, 2011 to $3.0 million in Q3, 2012. Net earnings as a percentage of revenue increased to 9.0% compared to 8.8% in 2011. This margin increase is due to a flow through effect of the increase in the EBITDA margin discussed below.

EBITDA was $6.7 million for the three months ended September 30, 2012, compared to $6.0 million in the comparative period of 2011. This 11.5% improvement was a result the new volume from the Saskatoon Health Region contract coupled with favorable variances in utilities.

Operating Expenses

Wages and benefits increased to $15.5 million from $14.4 million and increased as a percentage of revenue to 47.0% compared to 46.3% in the same period of 2011. The increase in the period is due to the incremental labour required to process increased volume and rising labour costs from increments in the minimum wage. Linen expenses increased to $3.1 million from $3.0 million and remained comparable at 9.5% as a percentage of revenue compared to Q3, 2011.

Utility costs decreased from 7.6% in 2011 to 6.7% as a percentage of revenue in Q3, 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 current lower market rate.

Delivery costs increased to $1.4 million or 4.3% of revenues compared to 4.0% in Q3, 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 ("Saskatoon") has increased delivery expenses as these services are being performed by the Corporation's Calgary facility. Incremental delivery costs for Saskatoon are offset by additional revenues.

Corporate costs decreased in Q3, 2012 by $0.2 million over the comparative period of 2011 and decreased as a percentage of revenues to 3.2% in Q3, 2012 from 4.1% in Q3, 2011. 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 purchases of laundry equipment in Montréal and Québec City.

Financial charges for Q3, 2012 increased by $0.1 million compared to Q3, 2011. The increase is mainly attributable to foreign exchange.

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, which commenced in the first quarter of 2011, reflects the quarterly provision on the earnings of the Corporation.

LIQUIDITY AND CAPITAL RESOURCES

In Q3, 2012 cash generated by operating activities was $6.2 million, compared to cash generated by operating activities of $8.2 million during Q3, 2011. The change in cash from operations is due to the payment of corporate income taxes to which the Corporation was previously exempted from due to its income trust status. This was partially offset by increases in earnings.

During Q3, 2012, cash used in financing activities amounted to $1.4 million compared to $7.7 million in Q3, 2011 mainly attributable to repayment of revolving debt. Financing activities in Q3, 2012 included $0.6 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 $4.9 million in Q3, 2012 compared to $0.5 million in Q3, 2011. Investing activities for the current quarter related to the purchase of property, plant and equipment.

Contractual Obligations

At September 30, 2012, payments due under contractual obligations for the next five years and thereafter are as follows:

(thousands)	Payments due by Period					
		Total	< 1 Year	1 - 3 Years	4 - 5 Years	> 5 Years
Long-term debt	$	7,787	-	7,787	-	-
Operating leases and utility commitments	$	21,410	1,480	7,274	5,705	6,951
Linen purchase obligations	$	4,195	4,195	-	-	-
Property, plant and equipment commitments	$	21,832	21,832	-	-	-

Scheduled lease and forward utility contract payments for 2012 are expected to be $1.5 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.

Financial Position

(thousands, except percentages)		September 30, 2012		December 31, 2011
Long term debt	$	7,787	$	6,095
Shareholders' equity		66,777		62,933
Total capitalization	$	74,564	$	69,028
Debt to total capitalization		10.4%		8.8%

For the quarter ended September 30, 2012, the Corporation had a debt to total capitalization of 10.4%, unused revolving credit facility of $31.8 million and has not incurred any events of default under the terms of its credit facility agreement.

As at September 30, 2012, the Corporation had net working capital of $10.9 million compared to its working capital position of $7.2 million at December 31, 2011. The increase in working capital is attributable to the increased earnings during the period offset by capital expenditures.

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 shares, if necessary, to provide for capital spending and sustain its property, plant and equipment.

DIVIDENDS

			2012				2011			
Fiscal Period	Payment Date	# of Shares outstanding		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
July	August 15	7,055,207	$	0.09583	$	676	$	0.09167	$	642
August	September 15	7,055,207		0.09583		676		0.09167		642
September	October 15	7,055,207		0.09583		676		0.09167		642
Q3			$	0.28750	$	2,028	$	0.27501	$	1,927
YTD			$	0.84585	$	5,949	$	0.82503	$	5,781

[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 September 30, 2012, the Corporation declared a $0.288 per share dividend compared to $0.750 per Share of Distributable Cash Flow (see *Terminology*). The payout ratio for the three months ended September 30, 2012 was 38.3%.

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

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

DISTRIBUTABLE CASH FLOW *(see Terminology)*

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

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

(thousands, except per share amounts and percentages)	2012			2011				2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Cash provided by operating activities	**$ 6,223**	$ (110)	$ 6,768	$ 3,929	$ 8,217	$ 2,577	$ 4,137	$ 3,720
Deduct (add):								
Net changes in non-cash working capital items[1]	**775**	(5,409)	2,276	(80)	2,928	(1,736)	130	(110)
Maintenance capital expenditures	**168**	232	134	179	9	423	224	35
Distributable cash flow	**$ 5,280**	$ 5,067	$ 4,358	$ 3,830	$ 5,280	$ 3,890	$ 3,783	$ 3,795
Distributable cash flow per weighted average diluted shares outstanding	**$ 0.750**	$ 0.723	$ 0.622	$ 0.548	$ 0.756	$ 0.559	$ 0.541	$ 0.543
Dividends declared	**2,028**	1,994	1,927	1,927	1,927	1,927	1,927	1,927
Dividends declared per share	**0.288**	0.283	0.275	0.275	0.275	0.275	0.275	0.275
Payout ratio[2]	**38.3%**	39.2%	44.2%	50.2%	36.4%	49.2%	50.8%	50.7%
Weighted average shares outstanding during the period, basic	**7,007**	6,979	6,932	6,932	6,930	6,918	6,891	6,905
Weighted average shares outstanding during the period, diluted	**7,040**	7,009	7,003	6,993	6,983	6,961	6,993	6,992
Trailing-twelve months ("TTM")								
Distributable cash flow	**18,535**	18,535	17,358	16,783	16,748	16,043	15,763	14,981
Dividends	**7,876**	7,774	7,706	7,706	7,706	7,706	7,706	7,706
Payout ratio[2]	**42.5%**	41.9%	44.4%	45.9%	46.0%	48.0%	48.9%	51.4%

(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 calculation.

(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 September 30 and November 7, 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 September 30, 2012 were 7,007,009 and 7,040,017, respectively, (6,930,462 and 6,982,501, 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 approved LTI compensation of $1.2 million (2011 – $1.8 million under the previous LTI plan) to be paid as shares issued from treasury under the terms of the revised plan approved by Shareholders in June 2011. As at September 30, 2012, the value of the shares held in trust by the LTI trustee was $1.4 million (2011 – $1.3 million) which was comprised of 48,192 in unvested common shares (September 30, 2011 – 74,511) with an aggregate cost of $0.3 million (2011 – $1.3 million). The basic net earnings per share calculation excludes the unvested common shares held by the LTI Trust.

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 nine month periods ended September 30, 2012, the Corporation incurred fees totaling $34,500 and $103,500, respectively, compared to $34,500 and $103,500 for the same periods of fiscal 2011.

CRITICAL ACCOUNTING ESTIMATES

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

TERMINOLOGY

EBITDA

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(thousands)	**2012**	2011	**2012**	2011
Net earnings	**$ 2,959**	$ 2,726	**$ 8,391**	$ 6,285
Add:				
Income tax expense	**1,224**	953	**3,053**	2,272
Interest expense and financial charges, net	**272**	131	**422**	319
Depreciation of property, plant and equipment	**1,609**	1,559	**4,734**	4,530
Amortization of intangible assets	**674**	673	**2,020**	1,955
Loss on disposal of property, plant and equipment	**1**	4	**120**	30
EBITDA	**$ 6,739**	$ 6,046	**$ 18,740**	$ 15,391

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 September 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 nine-months ended September 30, 2012.

RECENT ACCOUNTING PRONOUNCMENTS

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

FINANCIAL INSTRUMENTS

K-Bro's financial instruments at September 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 on utilities and textiles or option contracts.

CRITICAL RISKS AND UNCERTAINTIES

As at September 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 September 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 September 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 September 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 »).