Q3, 2013 Management's Discussion & Analysis

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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, 2013 and the audited Consolidated Financial Statements, as well as the MD&A, for the year ended December 31, 2012. 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 13, 2013.

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 non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers. The MD&A also makes reference to certain measures presented in the financial statements under IFRS or previous Canadian GAAP that is relevant to an understanding of the financial statements and is not a minimum line item mandated by IFRS and, therefore, are considered additional GAAP measures. 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

(thousands, except share and per share amounts)	Three Months Ended September 30, 2013	2012	2011
Revenue	$ 34,551	$ 33,013	$ 31,144
Earnings before income taxes	3,674	4,183	3,679
Net earnings	2,571	2,959	2,726
Net earnings per share:			
Basic	$ 0.37	$ 0.42	$ 0.39
Diluted	$ 0.36	$ 0.42	$ 0.39
Total assets	107,911	94,166	90,350
Long-term debt	17,028	7,787	7,224
Dividends declared to Shareholders	2,039	2,028	1,927
Dividends declared to Shareholders per share	$ 0.288	$ 0.288	$ 0.275
Number of shares outstanding:			
Basic	7,031,487	7,007,015	6,930,462
Diluted	7,054,936	7,040,017	6,982,501

(thousands, except share and per share amounts)	Nine Months Ended September 30, 2013	2012	2011
Revenue	$ 98,858	$ 94,704	$ 87,701
Earnings before income taxes	11,593	11,444	8,557
Net earnings	8,219	8,391	6,285
Net earnings per share:			
Basic	$ 1.17	$ 1.20	$ 0.91
Diluted	$ 1.17	$ 1.20	$ 0.90
Total assets	107,911	94,166	90,350
Long-term debt	17,028	7,787	7,224
Dividends declared to Shareholders	6,103	5,949	5,780
Dividends declared to Shareholders per share	$ 0.862	$ 0.846	$ 0.825
Number of shares outstanding:			
Basic	7,019,737	6,972,843	6,913,217
Diluted	7,041,823	7,005,845	6,965,256

SUMMARY OF INTERIM RESULTS AND KEY EVENTS

Edmonton Facility Development

During Q3, K-Bro continued construction of the new leased Edmonton facility. Management estimates that the total costs to commission the new facility to be approximately $27.8 million for new efficiency enhancing equipment, leaseholds and conversion costs, with immediate returns anticipated from reduced labour, lower energy consumption and other work-flow improvements. Transition into and start-up of the new facility commenced in Q3. As anticipated, transition costs associated with moving into the new facility were incurred during the quarter and negatively impacted the EBITDA margin. The transition will be completed in Q4, 2013. As at September 30, 2013, K-Bro has incurred $20.8 million of the total expected capital cost.

Health Shared Services Saskatchewan ("3sHealth")

During Q2, K-Bro announced that it had been informed by 3sHealth of its intention to enter into negotiations with K-Bro for a long-term contract to service laundry and linen requirements in Saskatchewan. This is a result of K-Bro being selected pursuant to 3sHealth's Request for Strategic Partner ("RFSP") process that commenced in 2012. 3sHealth and K-Bro remain in negotiations for a long-term services contract and upon the conclusion of successful negotiations and agreement on commercial terms, the Corporation will commence the planning and construction of a processing facility in the Province of Saskatchewan.

Effects of Economic Uncertainty

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

- Approximately 63.3% of its revenues in the quarter were from large publicly funded healthcare customers which are geographically diversified across multiple provinces;
- At September 30, 2013, K-Bro had unutilized borrowing capacity of $22.3 million or 55.8% of the revolving credit line available; and,
- K-Bro's prudent approach to managing capital has added cash flow and liquidity to the Corporation, thereby improving its ability to withstand the turmoil in the national and global capital markets.

K-Bro is a participant in the temporary foreign worker ("TFW") program in our facilities where genuine labour shortages exist, predominantly within our Alberta plants. During the year, the federal government reviewed the TFW program and proposed various rule changes. These proposed changes include stricter application requirements, the suspension of accelerated labour market opinions and an end to a provision whereby employers could pay wages lower than the prevailing wage to temporary foreign workers. The proposed rule changes have limited applicability to K-Bro and are not expected to have a material effect on the financial results or operations of the Corporation.

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, 2013	Q3 2012	YTD 2013	YTD 2012
Growth	EBITDA[1]	**-14.9%**	11.5%	**-4.5%**	21.8%
	Adjusted EBITDA[2]	**-4.3%**	11.5%	**-0.7%**	21.8%
	Revenue	**4.7%**	6.0%	**4.4%**	8.0%
	Distributable cash flow	**-20.4%**	0.0%	**-6.8%**	13.5%
Profitability	EBITDA[1]	**$ 5,735**	$ 6,739	**$ 17,896**	$ 18,740
	EBITDA margin	**16.6%**	20.4%	**18.1%**	19.8%
	Adjusted EBITDA[2]	**$ 6,448**	$ 6,739	**$ 18,609**	$ 18,740
	Adjusted EBITDA margin[2]	**18.7%**	20.4%	**18.8%**	19.8%
	Net earnings	**$ 2,571**	$ 2,959	**$ 8,219**	$ 8,391
	Adjusted net earnings[3]	**$ 3,070**	$ 2,959	**$ 8,718**	$ 8,391
Stability	Debt to total capitalization	**19.4%**	10.4%	**19.4%**	10.4%
	Unutilized line of credit	**$ 22,322**	$ 31,813	**$ 22,322**	$ 31,813
	Payout ratio	**48.4%**	38.3%	**44.5%**	40.3%
	Dividends declared per share	**$ 0.288**	$ 0.288	**$ 0.862**	$ 0.846
Cost containment	Wages and benefits	**46.8%**	47.0%	**46.3%**	46.1%
	Utilities	**6.0%**	6.7%	**6.3%**	6.4%
	Expenses included in EBITDA	**83.4%**	79.6%	**81.9%**	80.2%

(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.*

(2) Adjusted EBITDA is defined as EBITDA (defined above) plus or minus non-recurring, infrequent and/or unusual transactions which did not occur during the preceding two years and are not expected to recur within the next two years. During fiscal 2013, EBITDA has been adjusted for the recognition of the lease payments relating to decommissioned facilities in order to arrive at adjusted EBITDA. See *Terminology.*

(3) Adjusted net earnings is defined as net earnings plus or minus non-recurring, infrequent and/or unusual transactions net of corporate income taxes which did not occur during the preceding two years and are not expected to recur within the next two years. During fiscal 2013, net earnings has been adjusted for the recognition of the lease payments relating to decommissioned facilities in order to arrive at adjusted net earnings. 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 fiscal 2013 will show an increase in revenue compared to 2012.

During Q3, 2013 K-Bro continued the development of a new Edmonton processing facility. The commissioning and start-up of the new facility commenced in Q3 and will continue in Q4, 2013. As a result of the transition, lower efficiency and productivity of the Edmonton operations and one-time, non-recurring costs have negatively impacted the quarter. Management expects that the EBITDA margin will be negatively impacted by up to 3% on a consolidated basis for Q4, 2013 and will improve once the transition between the two sites is complete.

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

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)	2013			2012				2011
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Healthcare revenue	**21,874**	22,124	22,288	22,222	21,418	21,713	21,257	20,432
Hospitality revenue	**12,677**	10,536	9,359	9,364	11,595	9,813	8,908	8,726
Total revenue	**34,551**	32,660	31,647	31,586	33,013	31,526	30,165	29,158
Expenses included in EBITDA	**28,816**	26,403	25,743	25,809	26,274	25,122	24,568	24,602
EBITDA[1]	**5,735**	6,257	5,904	5,777	6,739	6,404	5,597	4,556
EBITDA as a % of revenue	**16.6%**	19.2%	18.7%	18.3%	20.4%	20.3%	18.6%	15.6%
Adjusted EBITDA[2]	**6,448**	6,257	5,904	5,777	6,739	6,404	5,597	4,556
Depreciation and amortization	**1,887**	1,940	1,974	1,924	2,283	2,263	2,207	2,082
Financial charges	**169**	127	123	(66)	272	67	84	93
Loss (gain) on disposal of equipment	**5**	78	-	39	1	(10)	129	50
Earnings before income taxes	**3,674**	4,112	3,807	3,880	4,183	4,084	3,177	2,331
Income tax expense	**1,103**	1,226	1,045	1,122	1,224	1,121	708	688
Net earnings	**2,571**	2,886	2,762	2,758	2,959	2,963	2,469	1,643
Net earnings as a % of revenue	**7.4%**	8.8%	8.7%	8.7%	9.0%	9.4%	8.2%	5.6%
Basic earnings per share	**0.366**	0.411	0.393	0.393	0.422	0.424	0.356	0.237
Diluted earnings per share	**0.364**	0.410	0.391	0.393	0.420	0.423	0.353	0.235
Adjusted net earnings[3]	**3,070**	2,886	2,762	2,758	2,959	2,963	2,469	1,643
Basic adjusted earnings per share[3]	**0.437**	0.411	0.393	0.393	0.422	0.424	0.356	0.237
Diluted adjusted earnings per share[3]	**0.435**	0.410	0.391	0.393	0.420	0.423	0.353	0.235
Total assets	**107,911**	104,226	99,452	94,800	94,166	90,505	92,529	91,425
Total long-term financial liabilities	**22,515**	20,794	10,442	11,023	12,830	11,963	8,795	11,203
Funds provided by operations	**5,106**	(1,499)	9,180	7,928	6,223	5	6,658	3,929
Long-term debt	**17,028**	15,338	5,162	5,818	7,787	7,113	4,000	6,095
Dividends declared per share	**0.288**	0.288	0.288	0.288	0.288	0.283	0.275	0.275

[1] EBITDA is defined as net earnings before income tax, gain or loss on disposals, financial charges and depreciation amortization. See *Terminology.*

[2] Adjusted EBITDA is defined as EBITDA (defined above) plus or minus non-recurring, infrequent and/or unusual transactions which did not occur during the preceding two years and are not expected to recur within the next two years. In Q3,2013, EBITDA has been adjusted for the recognition of the lease payments relating to decommissioned facilities in order to arrive at adjusted EBITDA. See *Terminology*.

[3] Adjusted net earnings is defined as net earnings plus or minus non-recurring, infrequent and/or unusual transactions net of corporate income taxes which did not occur during the preceding two years and are not expected to recur within the next two years. During Q3,2013, net earnings has been adjusted for the recognition of the lease payments relating to decommissioned facilities in order to arrive at adjusted net earnings. See *Terminology.*

Revenue, EBITDA, Adjusted EBITDA, Net Earnings and Adjusted Net Earnings

For the three months ended September 30, 2013, K-Bro's revenue increased by 4.7% to $34.6 million from $33.0 million in the comparative period. This increase was due to a combination of organic growth and price increases at existing customers across the plants, offset by price concessions as the result of the new contract with AHS in Edmonton. In Q3, 2013 approximately 63.3% of K-Bro's revenue was generated from healthcare institutions which has decreased slightly from 64.9% in Q3, 2012.

EBITDA was $5.7 million for the three months ended September 30, 2013, compared to $6.7 million in the comparative period of 2012. This 14.9% decrease was predominantly a result of the negative impact on efficiency and productivity as a result of the transfer of operations in Edmonton and the recognition of an expense for the remaining lease payments on the former processing facility. This was partially offset by organic growth and price increases from existing customers. The quarter-over-quarter decline in EBITDA is consistent with the Company's expectation. The transition to the new facility commenced in Q3, 2013 and will conclude in Q4.

Adjusted EBITDA, after normalization of occupancy costs relating to decommissioned facilities, was $6.4 million for the quarter compared to $6.7 million in Q3, 2012, or a 4.3% decline. The quarter-over-quarter decline in Adjusted EBITDA is due to the transition into the new Edmonton facility. Adjusted net earnings, after normalization of occupancy costs on a net tax basis, increased to $3.1 million compared to $3.0 million in the comparative period.

Net earnings decreased by $0.4 million or 13.1% from $3.0 million in Q3, 2012 to $2.6 million in Q3, 2013. Net earnings as a percentage of revenue decreased to 7.5% compared to 9.0% in 2012. This margin decrease is due to a flow through effect of the decrease in the EBITDA.

Operating Expenses

Wages and benefits increased to $16.2 million from $15.5 million, however, decreased as a percentage of revenue from 47.0% to 46.8% compared to the same period of 2012. The reduced proportion, as expressed as a percentage, was due to improved productivity among the various facilities.

Linen expenses increased to $3.5 million from $3.1 million and increased as a percentage of revenue to 10.1% compared to 9.5% in the same period of 2012 mainly due to new linen purchases as a result of the transition to the new Edmonton facility.

Utility costs decreased to 6.0% as a percentage of revenue in Q3, 2013, compared to 6.7% in 2012 due to decrease in price of natural gas.

Delivery costs and repairs & maintenance remained constant on a quarter by quarter basis.

Materials & Supplies increased slightly to $1.2 million or 3.4% of revenues compared to $1.0 million and 3.1% in Q3, 2012 mainly due to additional wash floor chemicals required for specialty processing.

Occupancy costs increased to $2.1 million or 6.1% of revenues compared to $1.0 million and 2.9% in Q3, 2012. The increase is mainly attributable to the recognition of a liability and corresponding expense of $0.7 million for the remaining lease payments that relate to decommissioned facilities as well as increased lease costs of the new Edmonton processing plant.

Corporate costs increased in Q3, 2013 by $0.2 million over the comparative period of 2012 and increased as a percentage of revenues to 3.7% in Q3, 2013 from 3.2% in Q3, 2012 due to an increase in the long term incentive compensation plan.

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.

Financial charges for Q3, 2013 decreased slightly compared to Q3, 2012. The decrease is mainly attributable to a decrease in foreign exchange. This was partially offset by an increase to interest on additional debt relating to the development and construction of the new Edmonton production facility.

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

LIQUIDITY AND CAPITAL RESOURCES

In Q3, 2013 cash generated by operating activities was $5.1 million, compared to cash generated by operating activities of $6.2 million during Q3, 2012. The change in cash from operations is due to the decreases in earnings.

During Q3, 2013, cash used in financing activities amounted to $0.3 million compared to $1.4 million in Q3 2012. Financing activities in Q3, 2013 included $1.7 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 $4.8 million in Q3, 2013 compared to $4.9 million in Q3, 2012. Investing activities for the current quarter primarily related to the purchase of property, plant and equipment for the new Edmonton plant.

Contractual Obligations

At September 30, 2013, 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	$ 17,028	-	17,028	-	-
Operating leases and utility commitments	$ 28,201	1,164	7,995	6,354	12,688
Linen purchase obligations	$ 3,099	3,099	-	-	-
Property, plant and equipment commitments	$ 7,018	7,018	-	-	-

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, 2013**	December 31, 2012
Long term debt	**$ 17,028**	$ 5,818
Shareholders' equity	**70,778**	67,685
Total capitalization	**$ 87,806**	$ 73,503
Debt to total capitalization	**19.4%**	7.9%

For the quarter ended September 30, 2013, the Corporation had a debt to total capitalization of 19.4%, unused revolving credit facility of $22.3 million and has not incurred any events of default under the terms of its credit facility agreement.

As at September 30, 2013, the Corporation had net working capital of $10.7 million compared to its working capital position of $8.1 million at December 31, 2012. The increase in working capital is attributable to the increased proceeds from the credit facility agreement, partially offset by capital expenditures associated with the new Edmonton plant.

Management believes that K-Bro has the capital resources and liquidity necessary to meet its commitments, support its operations and finance its growth strategies. In addition to K-Bro's ability to generate cash from

operations and its revolving credit facility, K-Bro believes it is also able to issue additional shares or increase its borrowing capacity, if necessary, to provide for capital spending and sustain its property, plant and equipment.

DIVIDENDS

			2013		2012	
Fiscal Period	Payment Date	# of Shares outstanding	Amount per Share	Total Amount[1]	Amount per Share	Total Amount[1]
January	February 15	7,055,207	$ 0.09580	$ 676	$ 0.09167	$ 642
February	March 15	7,055,207	0.09580	676	0.09167	642
March	April 13	7,055,207	0.09580	676	0.09167	642
Q1			$ 0.28741	$ 2,028	$ 0.27501	$ 1,927
April	May 15	7,055,207	$ 0.09580	$ 676	$ 0.09167	$ 642
May	June 15	7,095,343	0.09580	680	0.09167	676
June	July 13	7,095,343	0.09580	680	0.09167	676
Q2			$ 0.28741	$ 2,036	$ 0.27501	$ 1,994
July	August 15	7,095,343	$ 0.09580	$ 680	$ 0.09167	$ 676
August	September 15	7,095,343	0.09580	680	0.09167	676
September	October 15	7,095,343	0.09580	680	0.09167	676
Q3			$ 0.28741	$ 2,039	$ 0.27501	$ 2,028
YTD			$ 0.86223	$ 6,103	$ 0.82503	$ 5,949

[1] - The total amount of dividends paid was $0.09580 per share for a total of $675,912 per month for Jan - Apr 2013 and $642,146 per month in 2012; when rounded in thousands $2,027 of dividends were paid for in Q1 2013 and $1,927 in Q1 2012, respectively.

For the three months ended September 30, 2013, the Corporation declared a $0.288 per share dividend compared to $0.596 per Share of Distributable Cash Flow (see *Terminology*). The payout ratio for the three months ended September 30, 2013 was 48.4%.

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)	2013			2012				2011
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Cash provided by operating activities	**$ 5,106**	$ (1,499)	$ 9,180	$ 7,928	$ 6,223	$ 5	$ 6,653	$ 3,929
Deduct (add):								
Net changes in non-cash working capital items[1]	**332**	(6,956)	4,049	2,866	598	(5,518)	1,659	(583)
Share-based compensation expense	**279**	377	320	176	177	250	502	503
Maintenance capital expenditures	**293**	240	173	486	168	232	134	179
Distributable cash flow	**$ 4,202**	$ 4,840	$ 4,638	$ 4,400	$ 5,280	$ 5,041	$ 4,358	$ 3,830
Distributable cash flow per weighted average diluted shares outstanding	**$ 0.596**	$ 0.688	$ 0.657	$ 0.624	$ 0.750	$ 0.719	$ 0.622	$ 0.548
Dividends declared	**2,039**	2,036	2,028	2,028	2,028	1,994	1,927	1,927
Dividends declared per share	**0.288**	0.288	0.288	0.287	0.288	0.283	0.275	0.275
Payout ratio[2]	**48.4%**	41.9%	43.9%	46.1%	38.3%	39.4%	44.2%	50.2%
Weighted average shares outstanding during the period, basic	**7,031**	7,020	7,019	7,031	7,007	6,979	6,932	6,932
Weighted average shares outstanding during the period, diluted	**7,055**	7,038	7,054	7,055	7,040	7,009	7,003	6,993
Trailing-twelve months ("TTM")								
Distributable cash flow	**18,080**	19,158	19,358	19,079	18,508	18,509	17,358	16,783
Dividends	**8,131**	8,120	8,077	7,977	7,876	7,774	7,706	7,706
Payout ratio[2]	**45.0%**	42.5%	41.7%	41.8%	42.5%	42.0%	44.4%	45.9%

[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

As at September 30, the Corporation had 7,095,343 common shares outstanding, including 63,604 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, 2013 were 7,031,487 and 7,054,936, respectively, (7,007,015 and 7,040,017, respectively, for the comparative 2012 interim periods).

In accordance with the LTI plan and in conjunction with the performance of the Corporation in the 2012 fiscal year, on April 24, 2013 the Compensation, Nominating and Corporate Governance Committee of the Board of Directors approved LTI compensation of $1.5 million (2012 – $1.2 million) to be paid as shares issued from treasury. As at September 30, 2013, the value of the shares held in trust by the LTI trustee was $2.3 million (December 31, 2012 – $1.4 million) which was comprised of 63,604 in unvested common shares (December 31, 2012 – 48,191) with a nil aggregate cost (December 31, 2012 – $0.3 million).

As at November 12, 2013, there were 7,095,343 common shares issued and outstanding including 63,604 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 month period ended September 30, 2013, the Corporation incurred fees totaling $34,500, compared to $34,500 for the same period of fiscal 2012.

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, 2012.

TERMINOLOGY

Additional GAAP Measures

EBITDA

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

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)	**2013**	2012	**2013**	2012
Net earnings	**$ 2,571**	$ 2,959	**$ 8,219**	$ 8,391
Add:				
Income tax expense	**1,103**	1,224	**3,374**	3,053
Interest expense and financial charges, net	**169**	272	**419**	422
Depreciation of property, plant and equipment	**1,357**	1,609	**4,191**	4,734
Amortization of intangible assets	**530**	674	**1,610**	2,020
Loss on disposal of property, plant and equipment	**5**	1	**83**	120
EBITDA	**$ 5,735**	$ 6,739	**$ 17,896**	$ 18,740

Non-GAAP Measures

Adjusted EBITDA

Adjusted EBITDA is a measure which has been reported in order to assist in the comparison of historical EBITDA to current results. The calculation of Adjusted EBITDA normalizes the impact of non-recurring infrequent and/or unusual transactions which did not occur during the preceding two years and are not expected to recur within the next two years, and the related impact on EBITDA (as defined above). During the quarter ended September 30, 2013, a charge equivalent to the remaining lease payments for decommissioned facilities has been recognized as occupancy costs. The normalization of this expense from the calculation of EBITDA is considered by Management to be a more accurate representation of continuing operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(thousands)	**2013**	2012	**2013**	2012
EBITDA	**$ 5,735**	$ 6,739	**$ 17,896**	$ 18,740
Add:				
Occupancy expense of decommissioned facilities	**713**	-	**713**	-
Adjusted EBITDA	**$ 6,448**	$ 6,739	**$ 18,609**	$ 18,740

Adjusted Net Earnings and Adjusted Net Earnings per Share

Adjusted net earnings and *adjusted net earnings per share* are measures which have been reported in order to assist in the comparison of historical net earnings to current results. The calculation of Adjusted net earnings normalizes the impact of non-recurring infrequent and/or unusual transactions net of corporate income taxes which did not occur during the preceding two years and are not expected to recur within the next two years, and the related impact on net earnings and net earnings per share. The normalization of these net expenses in the calculation of adjusted net earnings and adjusted net earnings per share is considered by management to be a more accurate representation of the net earnings from continuing operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(thousands)	**2013**	2012	**2013**	2012
Net earnings	**$ 2,571**	$ 2,959	**$ 8,219**	$ 8,391
Add:				
Occupancy expense of decommissioned facilities, net of corporate income taxes	**499**	-	**499**	-
Adjusted net earnings	**$ 3,070**	$ 2,959	**$ 8,718**	$ 8,391
Adjusted net earnings, per share:				
Basic	**$ 0.44**	$ 0.42	**$ 1.24**	$ 1.20
Diluted	**$ 0.44**	$ 0.42	**$ 1.24**	$ 1.20

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.

Payout Ratio

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

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

CHANGES IN ACCOUNTING POLICIES

The Corporation has prepared its September 30, 2013 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.

The Corporation has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

- IFRS 10, *Consolidated Financial Statements*, replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation - Special Purpose Entities*. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. The Corporation assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

- IFRS 13, *Fair value measurement*, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the assets or liability under current market conditions, including assumptions about risk. The Corporation adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS did not require any adjustments to valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

CRITICAL RISKS AND UNCERTAINTIES

As at September 30, 2013, there are no material changes in the Corporation's risks or risk management activities since December 31, 2012. 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, 2013, 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, 2013 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, 2013 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, 2012.

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 »).