K·BRO

Q1, 2014 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 months ended March 31, 2014 and the audited Consolidated Financial Statements, as well as the MD&A, for the year ended December 31, 2013. The Corporation and its wholly-owned subsidiaries, including K-Bro Linen Systems Inc., are collectively referred to as "K-Bro" in this MD&A.

Management is responsible for the information contained in this MD&A and its consistency with information presented to the Audit Committee and Board of Directors. All information in this document has been reviewed and approved by the Audit Committee and Board of Directors. This review was performed by management with information available as of May 8, 2014.

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

(thousands, except share and per share amounts)	Three Months Ended March 31, 2014		2013		2012	
Revenue	$	**32,271**	$	31,647	$	30,165
Earnings before income taxes		**2,896**		3,807		3,177
Net earnings		**2,031**		2,762		2,469
Net earnings per share:						
Basic	$	**0.29**	$	0.39	$	0.36
Diluted	$	**0.29**	$	0.39	$	0.35
Total assets		**113,824**		99,452		92,529
Long-term debt		**18,609**		5,162		4,000
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		**7,031,739**		7,018,581		6,931,854
Diluted		**7,072,163**		7,054,476		7,003,346

SUMMARY OF INTERIM RESULTS AND KEY EVENTS

Regina Facility Development

On December 12, 2013, K-Bro and 3sHealth completed negotiations and executed a 10 year agreement for the provision of laundry and linen services for the province of Saskatchewan. Management estimates that the costs to commission a new facility in Regina are expected to be approximately $33 million for new efficiency enhancing equipment, land and building (up from an earlier estimate of costs of $22 million for a leased facility). Costs associated with the new facility are expected to be incurred beginning in Q2, 2014 until Q2, 2015. Management expects the new facility to commence processing in early Q3, 2015. On April 29, 2014, the Corporation acquired two parcels of land in Regina for an aggregate cost of $2,271 for the development of the new processing facility.

Dividend Increase

Upon completion and start-up of the new Edmonton processing plant, the Corporation declared a monthly dividend of $0.10 per common share for the period from May 1 to 31, 2014, to be paid on June 13, 2014 to shareholders of record on May 31, 2014. This represents an increase of 4.4% from its previous monthly dividend of $0.0958 per common share. It is the Board of Director's present intention to fix future monthly dividend payments at $0.1000 per common share per month, or equivalently $1.20 per common share per annum (up from the current annual dividend of $1.15).

Effects of Economic Uncertainty

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

- Approximately 70.2% of its revenues in the quarter were from large publicly funded healthcare customers which are geographically diversified across multiple provinces;
- At March 31, 2014, K-Bro had unutilized borrowing capacity of $20.7 million or 51.9% 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.

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 quarter-to-quarter comparative basis in each of these areas:

(thousands, except percentages) Category	Indicator	**Q1, 2014**	Q1, 2013
Growth	EBITDA[1]	**-10.5%**	5.5%
	Revenue	**2.0%**	4.9%
	Distributable cash flow	**-4.8%**	6.4%
Profitability	EBITDA[1,2]	**$ 5,287**	$ 5,904
	EBITDA margin	**16.4%**	18.7%
	Net earnings	**$ 2,031**	$ 2,762
Stability	Debt to total capitalization[3]	**20.7%**	7.0%
	Unutilized line of credit	**$ 20,741**	$ 34,438
	Payout ratio	**46.2%**	43.6%
	Dividends declared per share	**$ 0.288**	$ 0.288
Cost containment	Wages and benefits	**45.1%**	46.2%
	Utilities	**7.7%**	6.5%
	Expenses included in EBITDA	**83.6%**	81.3%

(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) During Q3, 2013, adjusted EBITDA, adjusted earnings and adjusted earnings per share was presented, however, during Q1, 2014 there are no non-recurring amounts which would require adjustment. For the quarter ended March 31, 2014, each of the non-GAAP adjusted measures are equivalent to their GAAP unadjusted measures. Accordingly, the calculations have not been presented.

(3) Debt to total capitalization is defined as total debt divided by total capital. See *Terminology.*

OUTLOOK

During 2014 there has been a focus by government on the temporary foreign worker program and its usage and prevalence across the country. K-Bro is a participant in the program in Alberta and to a limited extent in BC. Our facilities in Calgary and Edmonton presently employ approximately 70 workers under the temporary foreign worker program out of a total headcount of 600 full time employees, or about 11.5% of our workforce in the province. Over the past several years we have reduced our reliance on the program and it is our desire, whenever possible, to hire local Canadian workers. Our new Edmonton facility was purposefully located along a major public transit corridor and we are experiencing increased responses from local job applicants at the new location.

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.

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:

	2014	2013				2012		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Healthcare revenue	**22,641**	22,607	21,874	22,124	22,288	22,222	21,418	21,713
Hospitality revenue	**9,630**	9,737	12,677	10,536	9,359	9,364	11,595	9,813
Total revenue	**32,271**	32,344	34,551	32,660	31,647	31,586	33,013	31,526
Expenses included in EBITDA	**26,984**	26,923	28,816	26,403	25,743	25,809	26,274	25,122
EBITDA(1)	**5,287**	5,421	5,735	6,257	5,904	5,777	6,739	6,404
EBITDA as a % of revenue	**16.4%**	16.8%	16.6%	19.2%	18.7%	18.3%	20.4%	20.3%
Adjusted EBITDA(2)	**5,287**	5,421	6,448	6,257	5,904	5,777	6,739	6,404
Depreciation and amortization	**2,194**	2,304	1,887	1,940	1,974	1,924	2,283	2,263
Financial charges	**169**	176	169	127	123	(66)	272	67
Loss (gain) on disposal of equipment	**28**	25	5	78	-	39	1	(10)
Earnings before income taxes	**2,896**	2,916	3,674	4,112	3,807	3,880	4,183	4,084
Income tax expense	**865**	799	1,103	1,226	1,045	1,122	1,224	1,121
Net earnings	**2,031**	2,117	2,571	2,886	2,762	2,758	2,959	2,963
Net earnings as a % of revenue	**6.3%**	6.5%	7.4%	8.8%	8.7%	8.7%	9.0%	9.4%
Basic earnings per share	**0.289**	0.301	0.366	0.411	0.393	0.393	0.422	0.424
Diluted earnings per share	**0.287**	0.300	0.364	0.410	0.391	0.393	0.420	0.423
Adjusted net earnings(3)	**2,031**	2,117	3,070	2,886	2,762	2,758	2,959	2,963
Basic adjusted earnings per share(3)	**0.289**	0.301	0.437	0.411	0.393	0.393	0.422	0.424
Diluted adjusted earnings per share(3)	**0.287**	0.300	0.435	0.410	0.391	0.393	0.420	0.423
Total assets	**113,824**	112,330	107,911	104,226	99,452	94,800	94,166	90,505
Total long-term financial liabilities	**25,066**	25,619	22,515	20,794	10,442	11,023	12,830	11,963
Funds provided by operations	**4,016**	6,399	5,106	(1,499)	9,180	7,928	6,223	5
Long-term debt	**18,609**	19,640	17,028	15,338	5,162	5,818	7,787	7,113
Dividends declared per share	**0.288**	0.288	0.288	0.288	0.288	0.287	0.288	0.283

(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.*

(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. See *Terminology* for a complete description of the adjusted items.

(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. See *Terminology* for a complete description of the adjusted items.

Revenue, Earnings and EBITDA

For the three months ended March 31, 2014, K-Bro's revenue increased by 2.0% to $32.3 million from $31.6 million in the comparative period. This increase was due to organic growth and price increases at existing customers across the plants. In Q1, 2014 approximately 70.2% of K-Bro's revenue was generated from healthcare institutions which is comparable to 70.4 % in Q1, 2013.

EBITDA was $5.3 million for the three months ended March 31, 2014, compared to $5.9 million in the comparative period of 2013. Of this 10.5% decline, over half of this decrease was directly attributable to the increase in utilities expenses during the quarter. The remainder was a result of increased linen costs required to support new healthcare contracts.

Net earnings decreased by $0.7 million or 26.5% from $2.7 million in Q1, 2013 to $2.0 million in Q1, 2014. Net earnings as a percentage of revenue decreased to 6.3% compared to 8.7% in 2013. This margin decrease is due to a flow through effect of the decrease in the EBITDA.

Operating Expenses

Wages and benefits remained constant at $14.6 million and decreased as a percentage of revenue to 45.1% compared to 46.2% in the same period of 2013. The decrease in the period is due to the increased efficiencies achieved at the new Edmonton facility offset by incremental labour required to process increased volume as well as rising labour costs from increments in the wage rate. The transition of the new Edmonton facility continues to progress with labour productivity expected to continue to improve resulting in a further decline in wages and benefits costs throughout the remainder of the year.

Linen expenses increased to $3.6 million or 11.1% as a percentage of revenue in Q1, 2014 compared to $3.2 million and 10.2% as a percentage of revenue Q1, 2013. The increase was due to additional linen expenditures on a per unit volume basis required to support the commencement of new healthcare contracts. This level of linen expense is expected to continue on an ongoing basis in support of these new contracts.

Utility costs increased to $2.5 million or 7.7% as a percentage of revenue in Q1, 2014, compared to $2.1 million and 6.5% in 2013. This increase was mainly caused by a spike in the price of natural gas in the months of January and February. Predominantly all of the Corporation's natural gas consumption is unhedged. We are reviewing our future requirements and the forward commodities pricing, and continue to evaluate the merits of locking in a proportion of our demand of natural gas aligned with our customer's contract durations to fixed price supply agreements. Consistent with our past risk management practices, we anticipate fixing a portion of our commodity requirements in geographies where it is economical and practical to do so.

Delivery costs increased to $1.6 million and remained constant at 4.9% as a percentage of revenues compared to $1.5 million in Q1, 2013. The rising costs of diesel fuel have contributed to the increase on a year-over-year basis.

Materials and supplies increased to $1.2 million compared to $1.0 million in Q1, 2014 and increased as a percentage of revenue to 3.6% compared to 3.0% in Q1, 2013. The increase is due to an increase in expenses associated with the opening of a new distribution centre to support new healthcare volumes.

Repairs and maintenance remained constant at $1.0 million compared to $1.1 million in Q1, 2014 and decreased as a percentage of revenue to 3.2% compared to 3.4% in Q1, 2013.

Occupancy costs increased to $1.2 million or 3.7% of revenues in Q1, 2014 compared to $0.9 million and 3.0% in Q1, 2013. The increase is mainly attributable to the increased rent of the new Edmonton facility.

Corporate costs increased in Q1, 2014 by $0.1 million and to 4.4% as a percentage of revenues over the comparative period of 2013, from 4.1% in Q1, 2013. The increase in corporate costs is 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. On a quarter over quarter basis, depreciation has increased due to the assets acquired for the new Edmonton facility.

Financial charges for Q1, 2014 increased by $0.05 million compared to Q1, 2013. The increase is mainly attributable to interest on debt associated with the development of the new Edmonton 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 Q1, 2014 cash generated by operating activities was $4.0 million, compared to cash generated by operating activities of $9.2 million during Q1, 2013. The change in cash from operations is due to the decrease in earnings as well as the timing of the payment of taxes and purchase of linen.

During Q1, 2014, cash used in financing activities amounted to $3.1 million compared to $2.7 million in Q1, 2013. Financing activities in Q1, 2014 included $1.0 million in net payments of long-term debt and $2.0 million in dividends paid to Shareholders.

Investing activities resulted in a use of cash of $0.9 million in Q1, 2014 compared to $6.5 million in Q1, 2013. Investing activities for the current quarter related to purchases of property, plant and across the plants, while the amount in Q1, 2013 related primarily to the construction of the new Edmonton facility.

Contractual Obligations

At March 31, 2014, 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	$	18,609	-	18,609	-	-
Operating leases and utility commitments	$	30,302	3,711	7,564	3,187	15,840
Linen purchase obligations	$	4,592	4,592	-	-	-
Property, plant and equipment commitments	$	21,288	21,288	-	-	-

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)		2014		2013
Long-term debt	$	18,609	$	5,162
Shareholders' equity		71,480		68,739
Total capitalization	$	90,089	$	73,901
Debt to total capitalization (see *Terminology* for definition)		20.7%		7.0%

For the quarter ended March 31, 2014, the Corporation had a debt to total capitalization of 20.7%, unused revolving credit facility of $20.7 million and has not incurred any events of default under the terms of its credit facility agreement.

As at March 31, 2014, the Corporation had net working capital of $10.5 million compared to its working capital position of $9.4 million at December 31, 2013. The increase in working capital is attributable to the increased linen expenditures associated with the implementation of an expanded linen program with Vancouver based hospitality customers.

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

			2014				2013			
Fiscal Period	Payment Date	# of Shares outstanding	Amount per Share		Total Amount(1)		Amount per Share		Total Amount	
January	February 15	7,095,343	$	0.09580	$	680	$	0.09580	$	676
February	March 15	7,095,343		0.09580		680		0.09580		676
March	April 13	7,095,343		0.09580		680		0.09580		676
Q1			$	0.28740	$	2,039	$	0.28740	$	2,028

(1) The total amount of dividends paid was $0.09580 per share for a total of $679,734 per month for Jan - March 2014; when rounded in thousands, $2,039 of dividends were paid for the quarterly period.

For the three months ended March 31, 2014, the Corporation declared a $0.288 per share dividend compared to $0.624 per Share of Distributable Cash Flow (see *Terminology*). The payout ratio for the three months ended March 31, 2014 was 46.2%.

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 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)	2014	2013				2012		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Cash provided by operating activities	**$ 4,016**	$ 6,399	$ 5,106	$ (1,499)	$ 9,180	$ 7,928	$ 6,223	$ 5
Deduct (add):								
Net changes in non-cash working capital items[1]	**(1,087)**	1,201	332	(6,956)	4,049	2,866	598	(5,544)
Share-based compensation expense[2]	**372**	261	279	377	320	176	177	250
Maintenance capital expenditures[3]	**315**	180	293	240	173	486	168	232
Distributable cash flow	**$ 4,416**	$ 4,757	$ 4,202	$ 4,840	$ 4,638	$ 4,400	$ 5,280	$ 5,067
Distributable cash flow per weighted average diluted shares outstanding	**$ 0.624**	$ 0.673	$ 0.596	$ 0.688	$ 0.657	$ 0.624	$ 0.750	$ 0.719
Dividends declared	**2,039**	2,039	2,039	2,036	2,028	2,028	2,028	1,994
Dividends declared per share	**0.288**	0.288	0.288	0.288	0.288	0.287	0.288	0.283
Payout ratio[4]	**46.2%**	42.8%	48.4%	41.9%	43.9%	46.1%	38.3%	39.4%
Weighted average shares outstanding during the period, basic	**7,032**	7,031	7,031	7,020	7,019	7,007	7,007	6,979
Weighted average shares outstanding during the period, diluted	**7,072**	7,065	7,055	7,038	7,054	7,019	7,040	7,009
Trailing-twelve months ("TTM")								
Distributable cash flow	**18,215**	18,437	18,080	19,158	19,358	19,105	18,535	18,535
Dividends	**8,153**	8,142	8,131	8,120	8,077	7,977	7,876	7,774
Payout ratio[4]	**44.8%**	44.2%	45.0%	42.5%	41.7%	41.8%	42.5%	42.0%

[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] Share-based compensation expenses have historically been excluded from the calculation of distributable cash flow. Previously the share-based compensation was recorded as part of the net changes in non-cash working capital items, however the amount has been disclosed separately commencing in Q4, 2012. The comparative figures for the quarterly periods as presented have been restated to reflect this revised presentation.

[3] Maintenance capital expenditures includes costs required to maintain or replace assets which do not have a discrete return on investment.

[4] 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 March 31 and May 8, 2014, the Corporation had 7,095,343 common shares outstanding. Basic and diluted weighted average number of common shares outstanding for the three months ended March 31, 2014 were 7,031,739 and 7,072,163, respectively, (7,018,581 and 7,054,476, respectively, for the comparative 2013 interim periods).

In accordance with the LTI plan and in conjunction with the performance of the Corporation in the 2013 fiscal year, on May 8, 2014 the Compensation, Nominating and Corporate Governance Committee of the Board of Directors approved LTI compensation of $1.4 million (2013 – $1.5 million) to be paid as shares issued from treasury under the terms of the LTI plan approved by Shareholders in June 2011. As at March 31, 2014, the value of the shares held in trust by the LTI trustee was $2.5 million (December 31, 2013 – $2.5 million) which was comprised of 63,604 in unvested common shares (December 31, 2013 – 63,604) with a nil aggregate cost (December 31, 2013 – $nil).

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 period ended March 31, 2014, the Corporation incurred fees totaling $34,500, compared to $34,500 for the same period of fiscal 2013.

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, 2013.

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

	Three Months Ended March 31,	
(thousands)	**2014**	2013
Net earnings	**$ 2,031**	$ 2,762
Add:		
Income tax expense	**865**	1,045
Interest expense and financial charges, net	**169**	123
Depreciation of property, plant and equipment	**1,664**	1,423
Amortization of intangible assets	**530**	551
Loss on disposal of property, plant and equipment	**28**	-
EBITDA	**$ 5,287**	$ 5,904

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 third quarter ended September 30, 2013, a charge equivalent to the remaining lease payments for decommissioned facilities was 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.

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 this net expense 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.

For the quarter ended March 31, 2014, each of the non-GAAP adjusted measures noted above (adjusted EBITDA, adjusted net earnings and adjusted net earnings per share) are equivalent to their unadjusted measures. Accordingly, no calculations have been presented for these three measures.

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.

Debt to Total Capitalization

Debt to total capitalization is defined by management as the total long-term debt divided by the Corporation's total shareholder's equity. This is a measure used by investors to assess the Corporation's financial structure.

Distributable Cash Flow, Payout Ratio, Debt to Total Capitalization, 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.

Off Balance Sheet Arrangements

As at March 31, 2014, the Corporation has not entered into any off balance sheet arrangements.

CHANGES IN ACCOUNTING POLICIES

The Corporation has prepared its March 31, 2014 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, 2014. These changes were made in accordance with the applicable transitional provisions.

- IFRS 21, *Levies*, requires the Corporation to consider certain government imposed payments, or levies, such as property tax to determine whether the obligating event requiring recognition of a liability arises at a point in time or a period of time. As legislation can vary in different jurisdictions this change was applied and considered for each jurisdiction based on the relevant facts and circumstances. The adoption of IFRIC 21 did not result in any change to the method of recognizing liabilities arising from levies for the Corporation.

CRITICAL RISKS AND UNCERTAINTIES

As at March 31, 2014, there are no material changes in the Corporation's risks or risk management activities since December 31, 2013. The Corporation's results of operations, business prospects, financial condition, cash dividends to Shareholders and the trading price of the Corporation's Shares are subject to a number of risks. These risk factors include: dependence on long-term contracts and the associated renewal risk thereof; the effects of market volatility and uncertainty; potential future tax changes; the competitive environment; our ability to acquire and successfully integrate and operate additional businesses; utility costs; the labour markets; the fact that our credit facility imposes numerous covenants and encumbers assets; and, environmental matters.

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

CONTROLS AND PROCEDURES

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

Disclosure Controls and Procedures

The Corporation has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements of K-Bro was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Corporation's CEO and CFO have evaluated the effectiveness of these disclosure controls and procedures for the three months ended March 31, 2014, 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 March 31, 2014 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 March 31, 2014 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, 2013.

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 »).