



Q2, 2011
Consolidated
Financial
Statements

dependable.

Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	June 30, 2011	December 31, 2010
ASSETS		
Current assets		
Accounts receivable	\$ 14,391	\$ 13,352
Linen in service	8,110	7,840
Prepaid expenses and deposits	769	798
	23,270	21,990
Property, plant and equipment (note 5)	34,743	33,857
Intangible assets (note 6)	14,686	15,199
Goodwill	20,449	19,633
	\$ 93,148	\$ 90,679
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 12,293	\$ 13,326
Income taxes payable	812	-
Dividends payable to shareholders	642	-
	13,747	13,326
Long-term debt (note 7)	13,007	10,763
Unamortized lease inducements (note 9)	543	566
Deferred income taxes (note 10)	4,004	3,446
	31,301	28,101
SHAREHOLDERS' EQUITY		
Share capital (note 12)	69,493	69,799
Contributed surplus	1,011	1,141
Deficit	(8,657)	(8,362)
Accumulated other comprehensive loss	-	-
	61,847	62,578
Contingencies and commitments (note 11)	\$ 93,148	\$ 90,679

The accompanying notes are an integral part of these interim consolidated financial statements.

Consolidated Statements of Earnings & Comprehensive Income

(unaudited, thousands of Canadian dollars, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010 <i>(note 18)</i>	2011	2010 <i>(note 18)</i>
Revenue	\$ 28,871	\$ 25,902	\$ 56,557	\$ 49,834
Expenses				
Wages and benefits	13,362	11,997	26,156	22,770
Linen	2,961	2,596	5,899	5,119
Utilities	2,041	2,024	4,235	4,035
Delivery	1,152	957	2,349	1,901
Occupancy costs	938	943	1,885	1,880
Materials and supplies	973	997	1,827	1,870
Repairs and maintenance	938	803	1,859	1,674
Corporate	1,641	1,321	3,003	2,646
	24,006	21,638	47,213	41,895
Earnings before the undernoted	4,865	4,264	9,344	7,939
Other expenses				
Depreciation of property, plant and equipment	1,395	1,611	2,970	3,157
Amortization of intangible assets	641	640	1,282	1,258
Financial charges (note 8)	84	189	189	316
Loss on disposal of property, plant and equipment	20	57	26	57
	2,140	2,497	4,467	4,788
Earnings before income taxes	2,725	1,767	4,877	3,151
Current income tax expense	455	-	812	-
Deferred income tax expense	267	55	507	13
Income tax expense	722	55	1,319	13
Net earnings	2,003	1,712	3,558	3,138
Gain on derivative financial instruments, net	-	(25)	-	(50)
Comprehensive income	\$ 2,003	\$ 1,737	\$ 3,558	\$ 3,188
Net earnings per share:				
Basic	\$ 0.29	\$ 0.25	\$ 0.52	\$ 0.46
Diluted	\$ 0.29	\$ 0.25	\$ 0.51	\$ 0.45
Weighted average number of shares outstanding (note 12c):				
Basic	6,917,854	6,877,183	6,904,451	6,862,601
Diluted	6,960,674	6,950,821	6,947,271	6,936,239

The accompanying notes are an integral part of these interim consolidated financial statements.

Consolidated Statements of Changes in Equity

(unaudited, thousands of Canadian dollars)

	Six Months Ended June 30,	
	2011	2010
Exchangeable shares		
Balance, beginning of year	\$ 724	\$ 724
Conversion into Common shares	(724)	-
Balance, end of period	\$ -	\$ 724
Fund units		
Balance, beginning of year	\$ 70,676	\$ 70,676
Conversion into Common shares	(70,676)	-
Balance, end of period	\$ -	\$ 70,676
Common shares		
Balance, beginning of year	\$ -	\$ -
Conversion of exchangeable shares	724	-
Conversion of fund units	70,676	-
Balance, end of period	\$ 71,400	\$ -
Shares/Fund units held in trust		
Balance, beginning of year	\$ (1,601)	\$ (834)
Change during the period	(306)	(767)
Balance, end of period	\$ (1,907)	\$ (1,601)
Total share capital	\$ 69,493	\$ 69,799
Contributed surplus		
Balance, beginning of year	\$ 1,141	\$ 572
Stock-based compensation	(130)	326
Balance, end of period	\$ 1,011	\$ 898
Deficit		
Balance, beginning of year	\$ (8,362)	\$ (7,609)
Net earnings	3,558	3,138
Dividends paid on common shares	(3,853)	(3,853)
Balance, end of period	\$ (8,657)	\$ (8,324)
Accumulated other comprehensive income		
Balance, beginning of year	\$ -	\$ (35)
Unrealized gain on derivative financial instruments, net	-	50
Balance, end of period	\$ -	\$ 15
Total Shareholders' Equity	\$ 61,847	\$ 62,388

The accompanying notes are an integral part of these interim consolidated financial statements.

Consolidated Statements of Cash Flow

(unaudited, thousands of Canadian dollars)

	Six Months Ended June 30,	
	2011	2010
OPERATING ACTIVITIES		
Net earnings	\$ 3,558	\$ 3,138
Depreciation of property, plant and equipment	2,970	3,157
Amortization of intangible assets	1,282	1,258
Amortization of lease inducements (note 9)	(23)	(28)
Loss on disposal of property, plant and equipment	26	57
Deferred income taxes	507	13
	8,320	7,595
Change in non-cash balances relating to operations (note 14)	(1,606)	208
Cash provided by operating activities	6,714	7,803
FINANCING ACTIVITIES		
Proceeds from revolving credit facility	4,310	12,259
Repayments to revolving credit facility	(2,066)	(2,466)
Dividends paid to shareholders	(3,212)	(3,853)
Cash provided by (used in) financing activities	(968)	5,940
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,464)	(1,251)
Proceeds from disposal of property, plant and equipment	28	3
Purchase of intangible assets	-	(236)
Acquisition of business	(4,310)	(12,259)
Cash used in investing activities	(5,746)	(13,743)
Change in cash during the period	-	-
Cash, beginning of year	-	-
Cash, end of period	\$ -	\$ -
Supplementary cash flow information		
Interest paid	\$ 134	\$ 250
Income taxes	\$ -	\$ -

The accompanying notes are an integral part of these interim consolidated financial statements.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

K-Bro Linen Inc. (the "Corporation" or "K-Bro") is incorporated in Canada under the Business Corporations Act (Alberta). The Corporation and its wholly owned subsidiaries provide a range of linen services to healthcare institutions, hotels and other commercial accounts that include the processing, management and distribution of general linen and operating room linen. The Corporation provides services from eight processing facilities in seven major cities across Canada from Victoria, British Columbia to Québec City, Québec.

The Corporation's common shares are traded on the Toronto Stock Exchange under the symbol "KBL". The address of the Corporation's registered office is #103, 15023 – 123 Avenue, Edmonton, Alberta, Canada.

These unaudited interim Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors ("the Board") on August 2, 2011.

1 Basis of Presentation

The Corporation carries on the business previously conducted by K-Bro Linen Income Fund (the "Fund"). The Fund was converted to a corporation, pursuant to a plan of arrangement (the "Conversion") which was completed on January 1, 2011. As a result of the Conversion, unitholders of the Fund received one common share of the Corporation for each one unit of the Fund. The Corporation holds all of the assets and liabilities, previously held, directly or indirectly, by the Fund.

As part of the reorganization, the Conversion was treated as a change in business form and was accounted for as a continuity of interests; as such, the carrying amounts of assets, liabilities and unitholders' equity in the consolidated financial statements of the Fund immediately before the Conversion were the same as the carrying values of the Corporation immediately after the Conversion. References to common shares, shareholders and dividends of the Corporation were formerly referred to as units, unitholders and distributions under the Fund, respectively.

Furthermore, in conjunction with the Corporation's audited annual Consolidated Financial Statements to be prepared under International Financial Reporting Standards ("IFRS") for the year ended December 31, 2011, these unaudited interim Consolidated Financial Statements present K-Bro's initial financial results of operations and financial position under IFRS as at and for the three and six months ended June 30, 2011, including 2010 comparative periods. As a result, they have been prepared in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards* and with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). These unaudited interim Consolidated Financial Statements do not include all the necessary annual disclosures in accordance with IFRS. The accounting policies followed in these unaudited interim Consolidated Financial Statements are the same as those applied in the Corporation's interim Consolidated Financial Statements for the period ended March 31, 2011. Previously, the Corporation prepared its annual Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles ("previous GAAP").

The preparation of these unaudited interim Consolidated Financial Statements resulted in selected changes to K-Bro's accounting policies as compared to those disclosed in the Corporation's audited annual Consolidated Financial Statements for the year ended December 31, 2010 issued under previous GAAP. A summary of the significant changes to K-Bro's accounting policies along with reconciliations presenting the impact of the transition to IFRS for the three and six month comparative periods ended June 30, 2010 is contained in note 18.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1 as disclosed in note 18. The policies applied in these unaudited interim Consolidated Financial Statements are based on IFRS issued and outstanding as of August 2, 2011. Any subsequent changes to IFRS that are given effect in the Corporation's annual Consolidated Financial Statements for the year ending December 31, 2011 could result in restatement of these unaudited interim Consolidated Financial Statements, including the transition adjustments recognized on change-over to IFRS.

2 Significant accounting policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

a) Basis of Measurement

The unaudited interim Consolidated Financial Statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments and available-for-sale investments.

b) Principles of Consolidation

The unaudited interim Consolidated Financial Statements include the Corporation, its wholly owned subsidiaries and the long-term incentive plan trust, a special purpose entity (notes 2(o)(ii) and (iii)). All material intercompany balances and transactions have been eliminated upon consolidation.

c) Use of Estimates

The timely preparation of the unaudited interim Consolidated Financial Statements requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expense during the reporting period. Actual results may differ from these estimates.

Uncertainty is inherent in estimating the useful life of property, plant and equipment, intangible assets and linen in service, and their corresponding depreciation rates; allowances for doubtful accounts receivable, deferred income taxes, provision for legal contingencies, volume rebates; the fair value of goodwill; and; the fair value financial instruments. The impact on the Consolidated Financial Statements of future changes in such estimates could be material.

d) Linen in Service

Linen in service is measured at the lower of cost and net realizable value. The cost is calculated by a method which approximates the weighted average cost method, with operating room linen amortized across its estimated service life of 24 months and general linen amortized based on usage which results in an estimated average service life of 24 months. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits of use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Corporation's linen in service in the future.

e) Revenue Recognition

Revenue from linen management and laundry services is primarily based on written service agreements whereby the Corporation agrees to collect, launder, deliver and replenish linens. The Corporation recognizes revenue in the period in which the services are provided.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

f) Property, Plant and Equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be reliably measured. The carrying amount of a replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The Corporation performed an analysis of the useful life for each of its capital asset classes and determined that changing the estimated useful lives of certain of these assets for amortization purposes would more accurately reflect the period over which they provide economic benefits to the Corporation. Previously the Corporation accounted for its property, plant and equipment using the declining balance method with annual rates between 5% and 30%.

The Corporation has applied this change in accounting estimate on a prospective basis beginning January 1, 2010. As a result of the change, depreciation expense increased by \$167 and \$298 for the three and six-months ended June 30, 2011, respectively. Depreciation expense increased by \$725 for the year ended December 31, 2010.

The major categories of property, plant and equipment are depreciated on a straight-line basis as follows:

Asset	Rate
Buildings	Straight-line 15-25 years
Laundry equipment	Straight-line 7-20 years
Office equipment	Straight-line 2-5 years
Delivery equipment	Straight-line 5 years
Computer equipment	Straight-line 2 years
Leasehold improvements	Straight-line over lease

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of earnings and comprehensive income.

g) Impairment of Financial Assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss equal to the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

h) Impairment of Non-Financial Assets

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating unit or "CGU"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The Corporation evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

i) Intangible Assets

Intangible assets are recorded at cost and include customer contracts in progress and related relationships, which are being amortized using the straight-line method over the remaining lives of the related contracts and relationships. Intangible assets which relate to computer software are amortized using the straight-line method over five years when put into service. The estimates are reviewed at least annually and are updated if expectations change as a result of changing client relationships or technological obsolescence. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Corporation's intangible assets in the future.

j) Income Taxes

Income tax is recognized in net earnings except to the extent that it relates to items recognized directly in shareholders' equity, in which case the income tax is recognized directly in shareholders' equity. Current income taxes for the current and prior periods are measured at the amount expected to be recoverable from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period.

The Corporation follows the liability method of accounting for income taxes. Under this method, deferred income taxes are recorded for the effect of any temporary difference between the accounting and income tax basis of an asset or liability.

Deferred income tax is calculated using the enacted or substantively enacted income tax rates expected to apply when the assets are realized or liabilities are settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings or in shareholders' equity depending on the item to which the adjustment relates.

Deferred income tax assets are recognized to the extent future recovery is probable. Deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Up until December 31, 2010, the Corporation was a mutual fund trust for income tax purposes. As such, the trust was only taxable on any amount not distributed to Unitholders. As substantially all taxable income was distributed to the unitholders, no provision for current income taxes on earnings of the Fund was made in the financial statements to December 31, 2010.

Income taxes on earnings in interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

k) Business Combinations

Business combinations are accounted for using the purchase method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred.

l) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their estimated fair values at the acquisition date. Goodwill is allocated as of the date of the business combination. Goodwill is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Goodwill acquired through a business combination is allocated to each cash generating unit, or group of CGUs, that are expected to benefit from the related business combination. A group of CGUs represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment.

m) Volume Rebates

Certain customers receive a rebate based on specified annual processing volumes. A rebate liability is recognized at the time it is expected that the customer will meet the specified annual volume levels.

n) Earnings Per Share

Basic earnings per share ("EPS") is calculated by dividing net earnings for the period attributable to shareholders of the Corporation by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of common shares included within the weighted average is computed using the treasury stock method. The Corporation's potentially dilutive common shares are comprised of long-term incentive plan equity compensation granted to officers and key employees (notes 2(o)(ii) and (iii)).

o) Employee Benefits

i) Post-employment benefit obligations

The Corporation contributes on behalf of its employees to their individual Registered Retirement Savings Plans subject to an annual maximum of 4% of gross personal earnings. The Corporation accounts for contributions as an expense in the period that they are incurred. The Corporation does not provide any other post-employment or post-retirement benefits.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

ii) Equity-based compensation plan of the Fund

The officers and key employees of the Corporation were eligible to participate in a long-term incentive plan ("LTIP"), which involved equity-settled share-based payments. This LTIP was approved by the former Unitholders of the Fund in fiscal 2005. The Corporation set aside funds each year based on the amount by which distributable cash flow exceeded a base distributable amount for the fiscal year. The LTIP was amended in December 2010 to provide for the continuing operation of the plan following the Conversion, as well as to permit the trustee to hold a portion of the funds in cash. Any cash held by the LTIP trustee will vest on the same terms as the LTIP Shares.

The LTIP trustee purchased common shares in the open market and holds such common shares until ownership vests to each participant. Subject to the Board's discretion to accelerate vesting, one-quarter of the LTIP grant vested thirty days following the date that the Directors of the Corporation approved the audited Consolidated Financial Statements of the Corporation (the "Determination Date"). The remaining three-quarters vest on the second anniversary of the Determination Date. In most circumstances, unvested grants amounts held by the trustee for an LTIP participant are forfeit if the participant resigns or is terminated for cause prior to the applicable vesting date, and any common shares will be sold and the proceeds returned to the Corporation.

No additional compensation will be issued under this LTIP. Any unvested compensation granted under the terms of this plan will vest under the original terms and conditions of issue.

iii) Equity-based compensation plan of the Corporation

On June 16, 2011, the shareholders of the Corporation approved a New Long-term Incentive Plan ("New LTIP"). Under the New LTIP, awards are granted annually in respect of the prior fiscal year to the eligible participants. The granted number of common shares (net of withholding obligations) will be issued from treasury shares to be held in trust by the trustee pursuant to the terms of the New LTIP.

Subject to the discretion Compensation, Nominating and Corporate Governance Committee of the Board of Directors, one-quarter of a Participant's grant will vest on the Determination Date (defined as the first May 15th following the date that the Directors of the Corporation approve the audited consolidated financial statements of the Corporation for the prior year). The remaining three-quarters of the Participant's grant will vest on the first November 30th following the second anniversary of the Determination Date.

If a change of control occurs, all New LTIP Shares held by the Trustee in respect of unvested grants will vest immediately. New LTIP participants are entitled to receive dividends on all common shares granted under the New LTIP whether vested or unvested. In most circumstances, unvested common shares held by the New LTIP trustee for a participant will be forfeited if the participant resigns or is terminated for cause prior to the applicable vesting date, and those common shares will be disposed of by the trustee to K-Bro for no consideration and such common shares shall thereupon be cancelled. If a participant is terminated without cause, retires or resigns on a basis which constitutes constructive dismissal, the participant will be entitled to receive his or her unvested common shares on the regular vesting schedule under the New LTIP.

As at June 30, 2011 no grants are outstanding or have been declared under the terms of the New LTIP.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

p) Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition. Transaction costs are recognized immediately in income or are capitalized, depending upon the nature of the transaction and the associated product.

Available-for-sale

Financial assets classified as available-for-sale are carried at fair value with the changes in fair value recorded in other comprehensive income. The fair value of a financial instrument on initial recognition is normally the transaction price. Subsequent to initial recognition, fair values for financial assets are determined by bid prices quoted in active markets. Securities that are classified as available-for-sale and do not have a readily available market value are recorded at cost. Available-for-sale securities are written down to fair value through income whenever it is necessary to reflect other than temporary impairment. Gains and losses realized on disposal of available-for-sale securities, which are calculated on an average cost basis, are recognized in other income.

Loans, receivables and other liabilities

Loans, receivables and other liabilities are accounted for at amortized cost using the effective interest rate method.

The Corporation has made the following classifications:

	Classification	Measurement
Financial assets		
Cash	Available for sale	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Income taxes payable	Other liabilities	Amortized cost
Dividends payable	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and six months ended June 30, 2011 and 2010)

3 Recent Accounting Pronouncements

As of January 1, 2013, the Corporation will be required to adopt the following standards and amendments as issued by the IASB, which should not have a material impact on the Corporation's Consolidated Financial Statements:

- IFRS 9, *Financial Instruments*, which is the result of the first phase of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.
- IFRS 10, *Consolidated Financial Statements*, which is the result of the IASB's project to replace Standing Interpretations Committee 12, *Consolidation - Special Purpose Entities* and the consolidation requirements of IAS 27, *Consolidated and Separate Financial Statements*. The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity.

As of January 1, 2012, the Corporation will be required to adopt the following standards and amendments as issued by the IASB, for which the Corporation is assessing the impact on its Consolidated Financial Statements:

- IFRS 7, *Financial Instruments: Disclosure*. Modifications to this standard address disclosures related to transfers of financial assets and the derecognition of financial assets by a reporting entity.

As of January 1, 2013, the Corporation will be required to adopt the following standards and amendments as issued by the IASB, for which the Corporation is assessing the impact on its Consolidated Financial Statements:

- IFRS 13, *Fair Value Measurement*, which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

4 Business Acquisitions

a) Montréal, Québec

On June 30, 2011, the Corporation completed the acquisition of a laundry business, certain working capital and equipment of a processing plant located in Montréal, Québec from Les Buanderies Pierre R. Dextraze Inc. ("Dextraze"). The acquired business consisted of contracts with hospitality customers in Montréal and surrounding suburbs in Québec which complemented the existing business of the Corporation. The business acquisition has been accounted for using the acquisition method, whereby the purchase consideration was allocated to the fair values of the net assets acquired. The acquisition was funded through the Corporation's revolving credit facility.

The purchase price allocated to the net assets acquired, based on their estimated fair values, is as follows:

	June 30, 2011 ⁽¹⁾
Cash consideration ⁽²⁾	\$ 4,310
<i>Net assets acquired:</i>	
Working capital, net	\$ 332
Property, plant & equipment	2,445
Intangible assets	769
Future income tax liabilities	(52)
Goodwill ⁽²⁾	816
	\$ 4,310

⁽¹⁾ For the six months ended June 30, 2011 \$213 in professional fees associated with the acquisition has been included in expenses.

⁽²⁾ Of the cash consideration payable, \$632 is deposited with an escrow agent and will be released to the vendor upon the confirmation that certain representations and warranties are satisfied and earnings targets are achieved within the 24 month period subsequent to the acquisition. As at June 30, 2011, the contingent consideration payable is estimated to be paid in full and has been included as a part of goodwill.

As part of the acquired working capital, the Corporation received various accounts receivable which when valued at fair value of \$548 is equivalent to their exchange amounts. All acquired accounts receivable are considered to be collectible.

Intangible assets acquired are made up of customer contracts along with related relationships and customer lists. Goodwill acquired in the transaction arises from the efficiencies and synergies created between the existing business of the Corporation and the acquired assets. Of the acquired goodwill in the transaction \$764 is deductible for tax purposes.

Annualized figures of the acquired business as if the acquisition had taken place at the beginning of the year have not been presented for the period ended June 30, 2011 as the Corporation and Dextraze have different fiscal periods.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

b) Vancouver, British Columbia

On January 29, 2010, the Corporation completed the acquisition of a laundry business, linen, certain working capital and equipment of a processing plant located in Greater Vancouver, British Columbia from G&K Services Canada Inc. The acquired business consisted of contracts with Vancouver healthcare institutions and hospitality customers in both the greater Vancouver area and Whistler, British Columbia which complemented the existing business of the Corporation. The business acquisition has been accounted for using the acquisition method, whereby the purchase consideration was allocated to the fair values of the net assets acquired. The acquisition was funded through the Corporation's revolving credit facility.

The purchase price allocated to the net assets acquired, based on their estimated fair values, is as follows:

	June 30, 2011 ⁽¹⁾
Consideration	
Purchase price	\$ 12,259
Less:	
Restricted escrow funds ⁽²⁾	-
Cash consideration	\$ 12,259
Net assets acquired:	
Working capital, net	\$ 1,228
Linen in service	500
Property, plant & equipment	4,218
Intangible assets	2,900
Goodwill	3,413
	\$ 12,259

⁽¹⁾ Under IFRS, professional fees associated with an acquisition do not qualify for capitalization and are required to be expensed. This treatment differs from previous GAAP under which these costs were eligible for capitalization. As a part of the Corporation's IFRS conversion goodwill was reduced by an aggregate amount of \$665 as at December 31, 2010 (note 18).

⁽²⁾ Of the cash consideration payable, \$250 was deposited with an escrow agent to be released to the vendor upon the confirmation that certain representations and warranties were satisfied in the 12 month period subsequent to the acquisition. On conversion to IFRS, the full amount was reclassified as goodwill during Q1, 2010 (note 18). On January 31, 2011 the full amount of the escrow account was paid to the vendor.

As part of the acquired working capital, the Corporation received various accounts receivable which when valued at fair value was equivalent to their exchange amounts. Subsequent to the acquisition all acquired accounts receivable amounts were collected.

Intangible assets acquired are made up of customer contracts along with related relationships and customer lists. Goodwill acquired in the transaction arises from the efficiencies and synergies created between the existing business of the Corporation and the acquired assets. All of the goodwill acquired in the transaction is deductible for tax purposes.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

5 Property, plant and equipment

	Land	Buildings	Laundry Equipment	Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements	Spare Parts	Total
At January 1, 2010									
Cost	\$ 70	\$ 550	\$ 37,504	\$ 692	\$ 421	\$ 1,337	\$ 11,131	\$ 229	\$ 51,934
Accumulated depreciation	-	(51)	(13,655)	(242)	(219)	(801)	(3,154)	-	(18,122)
Net book amount	\$ 70	\$ 499	\$ 23,849	\$ 450	\$ 202	\$ 536	\$ 7,977	\$ 229	\$ 33,812
Year ended, December 31, 2010									
Opening net book amount	\$ 70	\$ 499	\$ 23,849	\$ 450	\$ 202	\$ 536	\$ 7,977	\$ 229	\$ 33,812
Additions	-	5	1,817	39	76	97	109	283	2,426
Acquisition of business	-	-	3,634	4	574	6	-	-	4,218
Disposals	-	-	(57)	(135)	(12)	(4)	-	-	(208)
Depreciation charge	-	(43)	(4,234)	(139)	(50)	(572)	(1,353)	-	(6,391)
Closing net book amount	\$ 70	\$ 461	\$ 25,009	\$ 219	\$ 790	\$ 63	\$ 6,733	\$ 512	\$ 33,857
At January 1, 2011									
Cost	\$ 70	\$ 555	\$ 42,842	\$ 537	\$ 1,025	\$ 1,436	\$ 11,240	\$ 512	\$ 58,217
Accumulated depreciation	-	(94)	(17,833)	(318)	(235)	(1,373)	(4,507)	-	(24,360)
Net book amount	\$ 70	\$ 461	\$ 25,009	\$ 219	\$ 790	\$ 63	\$ 6,733	\$ 512	\$ 33,857
Six-month period ended, June 30, 2011									
Opening net book amount	\$ 70	\$ 461	\$ 25,009	\$ 219	\$ 790	\$ 63	\$ 6,733	\$ 512	\$ 33,857
Additions	-	-	1,139	29	10	41	92	153	1,464
Acquisition of business	55	720	1,616	18	-	36	-	-	2,445
Disposals	-	-	(15)	(1)	(36)	(1)	-	-	(53)
Depreciation charge	-	(19)	(2,151)	(56)	(44)	(30)	(670)	-	(2,970)
Closing net book amount	\$ 125	\$ 1,162	\$ 25,598	\$ 209	\$ 720	\$ 109	\$ 6,155	\$ 665	\$ 34,743
At June 30, 2011									
Cost	\$ 125	\$ 1,275	\$ 45,572	\$ 583	\$ 995	\$ 1,511	\$ 11,332	\$ 665	\$ 62,058
Accumulated depreciation	-	(113)	(19,974)	(374)	(275)	(1,402)	(5,177)	-	(27,315)
Net book amount	\$ 125	\$ 1,162	\$ 25,598	\$ 209	\$ 720	\$ 109	\$ 6,155	\$ 665	\$ 34,743

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

6 Intangible assets

	Healthcare Contracts	Hospitality Contracts	Computer Software	Total
At January 1, 2010				
Cost	\$ 19,200	\$ 4,697	\$ 679	\$ 24,576
Accumulated depreciation	(7,948)	(2,033)	-	(9,981)
Net book amount	\$ 11,252	\$ 2,664	\$ 679	\$ 14,595
Year ended, December 31, 2010				
Opening net book amount	\$ 11,252	\$ 2,664	\$ 679	\$ 14,595
Additions	-	2,900	244	3,144
Depreciation charge	(1,616)	(745)	(179)	(2,540)
Closing net book amount	\$ 9,636	\$ 4,819	\$ 744	\$ 15,199
At January 1, 2011				
Cost	\$ 19,200	\$ 7,597	\$ 923	\$ 27,720
Accumulated depreciation	(9,564)	(2,778)	(179)	(12,521)
Net book amount	\$ 9,636	\$ 4,819	\$ 744	\$ 15,199
Six-month period ended, June 30, 2011				
Opening net book amount	\$ 9,636	\$ 4,819	\$ 744	\$ 15,199
Acquisition of business	-	769	-	769
Depreciation charge	(808)	(382)	(92)	(1,282)
Closing net book amount	\$ 8,828	\$ 5,206	\$ 652	\$ 14,686
At June 30, 2011				
Cost	\$ 19,200	\$ 8,366	\$ 923	\$ 28,489
Accumulated depreciation	(10,372)	(3,160)	(271)	(13,803)
Net book amount	\$ 8,828	\$ 5,206	\$ 652	\$ 14,686

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

7 Long-term debt

	Bankers Acceptances ⁽¹⁾	Prime Rate Loan ⁽²⁾	Total Long Term Debt
At January 1, 2010	\$ 4,000	\$ 43	\$ 4,043
New debt	-	12,924	12,924
Repayment of debt	-	(6,204)	(6,204)
Closing Balance at December 31, 2010	4,000	6,763	10,763
Current portion of long-term debt	-	-	-
Non-current portion of long-term debt	4,000	6,763	10,763
	\$ 4,000	\$ 6,763	\$ 10,763

At January 1, 2011	\$ 4,000	\$ 6,763	\$ 10,763
New debt	-	4,310	4,310
Repayment of debt	-	(2,066)	(2,066)
Closing Balance at June 30, 2011	4,000	9,007	13,007
Current portion of long-term debt	-	-	-
Non-current portion of long-term debt	4,000	9,007	13,007
	\$ 4,000	\$ 9,007	\$ 13,007

⁽¹⁾ Bankers' Acceptances bear interest at 30 day BA rates plus 2.5% depending on certain financial ratios, renewable monthly until June 30, 2012. As at June 30, 2011, the interest rate was 3.6%.

⁽²⁾ Prime rate loan, collateralized by a general security agreement, interest at prime plus 1.0% depending on certain financial ratios, monthly repayment of interest only, maturing on June 30, 2012. As at June 30, 2011, the interest rate was 4.0%.

The Corporation has a revolving credit facility of up to \$40,000 of which \$13,257 is drawn (including letters of credit totaling \$250 per note 11(a)). The facility is a two-year committed facility maturing June 30, 2012. It is extendable annually for another year at the lender's option. Interest payments only are due during the term of the facility.

A general security agreement over all assets, a mortgage against all leasehold interests and real property, insurance policies and an assignment of material agreements have been pledged as collateral.

Drawings under the revolving credit facility are available by way of Bankers' Acceptances, Canadian prime rate loans, letters of credit or standby letters of guarantee. Drawings under the revolving credit facility bear interest at a floating rate, plus an applicable margin based on certain financial performance ratios.

The Corporation has incurred no events of default under the terms of its credit facility agreement.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and six months ended June 30, 2011 and 2010)

8 Financial charges

	Three Months Ended June 30,	
	2011	2010
Interest on long-term debt	\$ 63	\$ 174
Other charges, net	21	15
	<u>\$ 84</u>	<u>\$ 189</u>

	Six Months Ended June 30,	
	2011	2010
Interest on long-term debt	\$ 134	\$ 310
Other charges, net	55	6
	<u>\$ 189</u>	<u>\$ 316</u>

9 Unamortized lease inducements

The Corporation entered into a ten-year lease in fiscal 2007 that included certain lease inducements consisting of a tenant allowance and a rent-free period. Tenant allowances are recorded as a liability when credited or received and amortized on a straight-line basis as a reduction of rent expense over the term of the related lease. For lease contracts with escalating lease payments, total rent expense for the lease term is expensed on a straight-line basis over the lease term. The difference between rent expensed and amounts paid is recorded as an increase or deferral in unamortized lease inducements.

The balance consists of:

	June 30, 2011	December 31, 2010
Lease inducements received	\$ 699	\$ 699
Accumulated amortization, net	(111)	(88)
	<u>588</u>	<u>611</u>
Less current portion, included in accrued liabilities	(45)	(45)
	<u>\$ 543</u>	<u>\$ 566</u>

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

10 Deferred income taxes

Deferred income tax liabilities are attributable to the following items:

	June 30, 2011	December 31, 2010
Linen in service	\$ (1,353)	\$ (620)
Accounts payable and accrued liabilities	515	535
Property, plant & equipment	(1,007)	(1,095)
Intangible assets & Goodwill	(2,367)	(2,506)
Offering costs & other	208	240
Deferred income tax liability	\$ (4,004)	\$ (3,446)

The amount of goodwill deductible for tax purposes is \$8,039 (2010 – \$7,275).

11 Contingencies and commitments

a) Contingencies – Letters of credit

The Corporation has a standby letter of credit issued as part of normal business operations in the amount of \$250 (2010 – \$250) which remains outstanding for the duration the Corporation provides services to the customer.

b) Commitments

(i) Operating leases and utility commitments

Minimum lease payments for operating leases on buildings and equipment and estimated natural gas and electricity commitments for the next five calendar years are as follows:

Remainder of 2011	\$ 3,233
2012	4,454
2013	2,117
2014	1,652
2015	1,197
Subsequent	1,996
	\$ 14,649

(ii) Linen purchase commitments

At June 30, 2011, the Corporation was committed to linen expenditure obligations in the amount of \$3,854 (2010 – \$1,718).

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

12 Share Capital

a) Authorized

The Corporation is authorized to issue an unlimited number of Common Shares and such number of shares of one class designated as Preferred Shares which number shall not exceed 1/3 of the Common Shares issued and outstanding from time to time.

b) Issued and outstanding

	June 30, 2011		December 31, 2010	
	Shares (#)	Capital (\$)	Shares (#)	Capital (\$)
Common shares				
Balance, beginning of year	-	\$ -	-	\$ -
Issued	7,004,973	71,400	-	-
	7,004,973	\$ 71,400	-	\$ -
Fund units				
Balance, beginning of year	6,932,562	\$ 70,676	6,932,562	\$ 70,676
Exchanged	(6,932,562)	(70,676)	-	-
	-	-	6,932,562	\$ 70,676
Exchangeable shares				
Balance, beginning of year	72,411	\$ 724	72,411	\$ 724
Exchanged	(72,411)	(724)	-	-
	-	\$ -	72,411	\$ 724
Capital held in LTIP trust				
Balance, beginning of year	-	\$ (1,601)	-	\$ (834)
Change during the period	-	(306)	-	(767)
	-	\$ (1,907)	-	\$ (1,601)
Total Share Capital	7,004,973	\$ 69,493	7,004,973	\$ 69,799

Pursuant to the Conversion, Units held by Unitholders were transferred to the Corporation in consideration for Common Shares on the basis of one Common Share for each Unit transferred. The Exchangeable Shares held by Exchangeable Shareholders were also transferred to the Corporation in consideration for Common Shares on the basis of one Common Share for each Exchangeable Share transferred. Under the terms of the Conversion, the Exchangeable Shares were cancelled for no consideration in accordance with the Fund's Amended Declaration of Trust.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

c) Weighted average number of shares outstanding

	Three Months Ended June 30,	
	2011	2010
Balance, beginning of period	7,004,973	7,004,973
Weighted average unvested shares purchased for LTIP	(87,119)	(127,790)
Basic weighted average shares for the period	6,917,854	6,877,183
Basic weighted average shares for the period	6,917,854	6,877,183
Dilutive effect of LTIP shares	42,820	73,638
Fully diluted weighted average shares for the period	6,960,674	6,950,821

	Six Months Ended June 30,	
	2011	2010
Balance, beginning of period	7,004,973	7,004,973
Weighted average unvested shares purchased for LTIP	(100,522)	(142,372)
Basic weighted average shares for the period	6,904,451	6,862,601
Basic weighted average shares for the period	6,904,451	6,862,601
Dilutive effect of LTIP shares	42,820	73,638
Fully diluted weighted average shares for the period	6,947,271	6,936,239

13 Dividends to shareholders

The Corporation's policy is to pay dividends to shareholders of its available cash to the maximum extent possible consistent with good business practice 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 to the shareholders on the last business day of each month and are paid by the 15th day of the following month.

During the three months ended June 30, 2011, the Corporation declared total dividends to shareholders of \$1,926 or \$0.275 per share (2010 - \$1,926 or \$0.275 per share). During the six months ended June 30, 2011, the Corporation declared total dividends to shareholders of \$3,853 or \$0.550 per share (2010 - \$3,853 or \$0.550 per share).

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

14 Net change in non-cash working capital items

	Six Months Ended June 30,	
	2011	2010
Accounts receivable	\$ (491)	\$ (293)
Linen in service	(237)	(114)
Prepaid expenses and deposits	62	(240)
Accounts payable and accrued liabilities	(1,752)	855
Income taxes payable	812	-
	\$ (1,606)	\$ 208

15 Capital management

The Corporation views its capital resources as the aggregate of its debt, shareholders' equity and amounts available under its credit facility. In general, the overall capital of the Corporation is evaluated and determined in the context of its financial objectives and its strategic plan.

The Corporation's objective in managing capital is to ensure sufficient liquidity to pursue its growth and expansion strategy, while taking a conservative approach towards financial leverage and management of financial risk. The Corporation's capital is composed of shareholders' equity and long-term debt. The Corporation's primary uses of capital are to finance its growth strategies and capital expenditure programs. The Corporation currently funds these requirements from internally-generated cash flows and interest bearing debt.

The Corporation pays a dividend which reduces its ability to internally finance growth and expansion. However the availability of the Corporation's revolving line of credit provides sufficient access to capital to allow K-Bro to take advantage of acquisition opportunities. The merits of the dividend are periodically evaluated by the Board.

The primary non-IFRS measures used by the Corporation to monitor its financial leverage are the ratios of Funded Debt to EBITDA and Fixed Charge Coverage. EBITDA is not a measure that has any standardized meaning prescribed by IFRS and is considered to be a non-IFRS measure. Therefore, this measure may not be comparable to similar measures presented by other companies. This measure has been described and presented in the manner in which the chief operating decision maker assesses performance.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

The Corporation manages a Funded Debt to EBITDA ratio calculated as follows:

	Twelve Months Ended	
	June 30, 2011	December 31, 2010
Long-term debt, including current portion	\$ 13,007	\$ 10,763
Issued and outstanding letters of credit	250	250
Funded debt	13,257	11,013
Net earnings for the trailing twelve months	7,373	6,953
Add:		
Income tax expense	1,468	163
Interest expense and financial charges, net	516	643
Depreciation of property, plant and equipment	6,204	6,391
Amortization of intangible assets	2,564	2,540
EBITDA	\$ 18,125	\$ 16,690
Funded debt to EBITDA	0.73x	0.66x

The Corporation manages a Fixed Charge Coverage calculated on a trailing twelve-month basis as follows:

	Twelve Months Ended	
	June 30, 2011	December 31, 2010
EBITDA	\$ 18,125	\$ 16,690
Interest expense and financial charges, net	516	643
Dividends to shareholders	7,706	7,706
	\$ 8,222	\$ 8,349
Fixed charge coverage	2.2x	2.0x

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

16 Segmented information

The Corporation provides laundry and linen services to the healthcare and hospitality sectors through eight operating divisions located in Vancouver, Victoria, Calgary, Edmonton, Toronto, Montréal, and Québec City. The services offered and the economic characteristics associated with these divisions are similar, therefore they have been aggregated into one reportable segment which operates exclusively in Canada. The earnings of the acquired Montréal and Greater Vancouver divisions (note 4) are reported commencing July 1, 2011 and February 1, 2010, respectively.

In Edmonton, the Corporation is the significant supplier of laundry and linen services to the entity which manages all major healthcare facilities in the region. This contract currently expires on January 31, 2013. In Calgary, the major customer is contractually committed to February 28, 2018 and in Vancouver the major customer is contractually committed to November 12, 2015. For the six months ended June 30, 2011, the Corporation has recorded revenue of \$27,281 (2010 – \$26,267) from these three major customers, representing 47.4% (2010 – 52.7%) of total revenue.

	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010			
Healthcare	\$	20,042	69.4%	\$	17,646	68.1%
Hospitality		8,829	30.6%		8,256	31.9%
	\$	28,871	100.0%	\$	25,902	100%

	Six Months Ended June 30, 2011		Six Months Ended June 30, 2010			
Healthcare	\$	39,983	70.7%	\$	34,783	69.8%
Hospitality		16,574	29.3%		15,051	30.2%
	\$	56,557	100.0%	\$	49,834	100%

17 Related party transaction

The Corporation has incurred expenses in the normal course of business for advisory consulting services provided by a Director primarily relating to acquisitions. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms. For the three months ended June 30, 2011, the Corporation incurred such fees totaling \$35 (2010 – \$35). For the six months ended June 30, 2011, the Corporation incurred such fees totaling \$69 (2010 – \$69).

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and six months ended June 30, 2011 and 2010)

18 Transition to IFRS

As disclosed in note 1, these unaudited interim Consolidated Financial Statements represent K-Bro's initial presentation of the financial results of operations and financial position under IFRS for the period ended June 30, 2011 in conjunction with the Corporation's annual audited Consolidated Financial Statements to be issued under IFRS as at and for the year ended December 31, 2011.

As a result, these interim Consolidated Financial Statements have been prepared in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards* and with IAS 34, *Interim Financial Reporting*, as issued by the IASB. Previously, the Corporation prepared its annual Consolidated Financial Statements in accordance with previous GAAP.

IFRS 1 requires the presentation of information 2010 comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRSs.

The following reconciliations present the adjustments made to the Corporation's previous GAAP financial results of operations and financial position to comply with IFRS 1. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations. Reconciliations include the Corporation's Consolidated Statement of Financial Position as at June 30, 2010 and Consolidated Statements of Earnings, Deficit and Comprehensive Income for the three and six month periods ended June 30, 2010.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and six months ended June 30, 2011 and 2010)

Consolidated Statement of Financial Position

As at June 30, 2010

	Previous GAAP	IFRS Adjustments				IFRS
		Prepaid Expenses & Deposits	Acquisition Adjustments	Deferred Taxes	PPE Impact	
ASSETS						
Current assets						
Accounts receivable	\$ 11,208	\$ -	\$ -	\$ -	\$ -	\$ 11,208
Linen in service (note 18a)	7,944	(81)	-	-	-	7,863
Prepaid expenses and deposits (note 18a, 18b)	1,154	(307)	-	-	-	847
Deferred income taxes (note 18b, 18c)	253	-	-	(253)	-	-
	20,559	(388)	-	(253)	-	19,918
Restricted escrow funds (note 18b)	250	-	(250)	-	-	-
Property, plant and equipment (note 18a)	35,949	328	-	-	(298)	35,979
Intangible assets	16,473	-	-	-	-	16,473
Goodwill (note 18b)	20,048	-	(415)	-	-	19,633
	\$ 93,279	\$ (60)	\$ (665)	\$ (253)	\$ (298)	\$ 92,003
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities	\$ 11,257	\$ -	\$ -	\$ -	\$ -	\$ 11,257
Distribution payable to unitholders	642	-	-	-	-	642
	11,899	-	-	-	-	11,899
Long-term debt	13,836	-	-	-	-	13,836
Unamortized lease inducements	582	-	-	-	-	582
Deferred income taxes (note 18b)	3,676	-	-	(378)	-	3,298
	29,993	-	-	(378)	-	29,615
UNITHOLDERS' EQUITY						
Equity capital	69,799	-	-	-	-	69,799
Contributed surplus	898	-	-	-	-	898
Deficit (note 18a, 18b, 18c)	(7,426)	(60)	(665)	125	(298)	(8,324)
Accumulated other comprehensive loss	15	-	-	-	-	15
	63,286	(60)	(665)	125	(298)	62,388
	\$ 93,279	\$ (60)	\$ (665)	\$ (253)	\$ (298)	\$ 92,003

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and six months ended June 30, 2011 and 2010)

Consolidated Statement of Earnings, Deficit and Comprehensive Income

Three Months Ended June 30, 2010

	Previous GAAP	IFRS Adjustments			IFRS
		Prepaid Expenses & Deposits	Acquisition Adjustments	PPE Impact	
Revenue	\$ 25,902	\$ -	\$ -	\$ -	\$ 25,902
Expenses					
Wages and benefits	11,997	-	-	-	11,997
Linen	2,596	-	-	-	2,596
Utilities	2,024	-	-	-	2,024
Delivery	957	-	-	-	957
Occupancy costs	943	-	-	-	943
Materials and supplies	997	-	-	-	997
Repairs and maintenance	803	-	-	-	803
Corporate (note 18b)	1,261	-	60	-	1,321
	21,578	-	60	-	21,638
Earnings before the undernoted	4,324	-	(60)	-	4,264
Other expenses					
Depreciation of property, plant and equipment (note 18a)	1,444	-	-	167	1,611
Amortization of intangible assets	640	-	-	-	640
Financial charges	189	-	-	-	189
Loss on disposal of property, plant and equipment	57	-	-	-	57
	2,330	-	-	167	2,497
Earnings before income taxes	1,994	-	(60)	(167)	1,767
Income tax expense	29	-	7	19	55
Net earnings	\$ 1,965	\$ -	\$ (67)	\$ (186)	\$ 1,712
Gain on derivative financial instruments, net	(25)	-	-	-	(25)
Comprehensive income	\$ 1,990	\$ -	\$ (67)	\$ (186)	\$ 1,737
Deficit, beginning of year	(7,465)	(41)	(478)	(125)	(8,109)
Net earnings	1,965	-	(67)	(186)	1,712
Distributions to unitholders	(1,927)	-	-	-	(1,927)
Deficit, end of period	\$ (7,427)	\$ (41)	\$ (546)	\$ (311)	\$ (8,325)
Net earnings per share:					
Basic	\$ 0.29				\$ 0.25
Diluted	\$ 0.28				\$ 0.25
Weighted average number of shares outstanding:					
Basic	6,877,183				6,877,183
Diluted	6,950,821				6,950,821

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and six months ended June 30, 2011 and 2010)

Consolidated Statement of Earnings, Deficit and Comprehensive Income

Six Months Ended June 30, 2010

	Previous GAAP	IFRS Adjustments			IFRS
		Prepaid Expenses & Deposits	Acquisition Adjustments	PPE Impact	
Revenue	\$ 49,834	\$ -	\$ -	\$ -	\$ 49,834
Expenses					
Wages and benefits	22,770	-	-	-	22,770
Linen	5,119	-	-	-	5,119
Utilities	4,035	-	-	-	4,035
Delivery	1,901	-	-	-	1,901
Occupancy costs	1,880	-	-	-	1,880
Materials and supplies	1,870	-	-	-	1,870
Repairs and maintenance	1,674	-	-	-	1,674
Corporate (note 18b)	2,353	-	293	-	2,646
	41,602	-	293	-	41,895
Earnings before the undernoted	8,232	-	(293)	-	7,939
Other expenses					
Depreciation of property, plant and equipment (note 18a)	2,859	-	-	298	3,157
Amortization of intangible assets	1,258	-	-	-	1,258
Financial charges	316	-	-	-	316
Loss on disposal of property, plant and equipment	57	-	-	-	57
	4,490	-	-	298	4,788
Earnings before income taxes	3,742	-	(293)	(298)	3,151
Income tax expense (recovery)	5	-	(5)	13	13
Net earnings	\$ 3,737	\$ -	\$ (288)	\$ (311)	\$ 3,138
Gain on derivative financial instruments, net	(50)	-	-	-	(50)
Comprehensive income	\$ 3,787	\$ -	\$ (288)	\$ (311)	\$ 3,188
Deficit, beginning of year	(7,310)	(41)	(258)	-	(7,609)
Net earnings	3,737	-	(288)	(311)	3,138
Distributions to unitholders	(3,853)	-	-	-	(3,853)
Deficit, end of period	\$ (7,426)	\$ (41)	\$ (546)	\$ (311)	\$ (8,324)
Net earnings per share:					
Basic	\$ 0.54				\$ 0.46
Diluted	\$ 0.54				\$ 0.45
Weighted average number of shares outstanding:					
Basic	6,862,601				6,862,601
Diluted	6,936,239				6,936,239

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2011 and 2010)

The following discussion explains the significant differences between K-Bro's previous GAAP accounting policies and those applied by the Corporation under IFRS. Adopted IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted or required an alternative treatment upon transition to IFRS for first-time adopters. The descriptive note captions below correspond to the adjustments presented in the preceding reconciliations.

IFRS Adjustments

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

Under previous GAAP spare parts were previously expensed as incurred or recognized as prepaid expenses in other current assets or in linen-in-service. K-Bro has determined that the new IFRS policy for spare parts going forward is that items under five thousand dollars will be expensed as incurred, since they are not significant enough to consider capitalizing and tracking as discrete capital assets, and items over five thousand dollars will be capitalized into a new category of property, plant and equipment called Spare Parts. Most spare parts used by K-Bro are specific to an item of property, plant and equipment, and therefore would meet the IFRS criteria to be recognized as property, plant and equipment. Depreciation of spare parts commences when they are available for use and are depreciated using the specific rate for the asset class to which the part is added when in use.

- b) Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and the services are received. Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities.

Under previous GAAP acquisition costs were treated as part of the purchase price. The acquisition costs for the second Vancouver plant were previously capitalized on the balance sheet. This amount has been expensed under the new IFRS standard.

Restricted escrow funds paid as part of the acquisition described in note 4(b) were carried on the consolidated balance sheet as a long-term restricted asset under previous GAAP. However, under the provisions of IFRS, contingent payments should be recognized as goodwill as part of the acquired net assets when the amount is likely to be paid. Accordingly, the full amount was reclassified as goodwill in the consolidated balance sheet as of Q1, 2010.

- c) Under previous GAAP deferred tax balances are split between current and non-current assets and liabilities on the same basis as the asset and liability they relate to; however, under IFRS all deferred tax balances are classified as non-current, based on the principle that any deferred tax will not be paid until at least the following year, and only the current tax balance will be paid in the current year.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and six months ended June 30, 2011 and 2010)

Adjustments to the Statement of Cash Flows and Statement of Comprehensive Income

Other than the recognition of the restricted escrow funds as a contingent payment related as goodwill as described in note 4(b), the transition from previous GAAP to IFRS had no significant impact on cash flows or comprehensive income generated by the Corporation. Accordingly, the statements of cash flows and statements of comprehensive income as prepared under previous GAAP have not been restated as it would not result in meaningful new information.

Optional Exemptions

IFRS 1 sets out a number of optional exemptions from full retrospective application of IFRS that may be elected by a company on transition. K-Bro has applied the following exemption:

- a) The Corporation has applied the business combinations exemption and accordingly has not retrospectively restated business combinations that took place prior to January 1, 2010.

19 Subsequent Event

Dividends

On July 15, 2011, the Board declared an eligible dividend of \$0.09167 per common share of the Corporation payable on August 15, 2011 payable to shareholders of record July 31, 2011.