K-Bro Linen Income Fund

Consolidated Financial Statements
December 31, 2008 and 2007

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Auditors' Report

To the Unitholders of
K-Bro Linen Income Fund

We have audited the consolidated balance sheets of **K-Bro Linen Income Fund** as at December 31, 2008 and 2007 and the consolidated statements of earnings and deficit, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

K-Bro Linen Income Fund

Consolidated Balance Sheets

	As at December 31, 2008 $	2007 $
Assets		
Current assets		
Accounts receivable	8,669,939	9,141,721
Linen in service	7,755,839	8,560,077
Prepaid expenses and deposits	623,953	837,212
Future income taxes (note 10)	426,032	-
	17,475,763	18,539,010
Restricted escrow funds (note 3)	540,500	-
Deferred charges (note 4)	132,631	-
Property, plant and equipment (note 5)	36,024,039	31,864,330
Intangible assets (note 6)	16,073,218	17,373,196
Goodwill (note 3)	15,679,750	15,565,799
	85,925,901	83,342,335
Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	12,884,895	12,540,726
Distribution payable to unitholders	642,146	503,843
Future income taxes (note 10)	-	106,603
	13,527,041	13,151,172
Long-term debt (note 7)	4,061,285	16,627,107
Unamortized lease inducements (note 9)	520,144	576,376
Future income taxes (note 10)	3,955,645	4,744,968
	22,064,115	35,099,623
Contingencies and commitments (note 11)		
Unitholders' Equity		
Exchangeable shares (note 12b)	724,110	724,110
Fund units (note 12b)	70,675,516	52,210,472
Fund units held in trust by LTIP (note 13)	(457,079)	(533,603)
Contributed surplus (note 12c)	340,728	413,671
Deficit	(7,309,749)	(4,573,837)
Accumulated other comprehensive (loss) income (note 12d)	(111,740)	1,899
	63,861,786	48,242,712
	85,925,901	83,342,335

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

Approved on behalf of the Fund

(Signed) "Ross Smith" ______________________ Trustee

(Signed) "Matthew Hills" ______________________ Trustee

K-Bro Linen Income Fund

Consolidated Statements of Earnings and Deficit

	Year ended December 31,	
	2008	**2007**
	$	**$**
Revenue	85,113,294	74,100,941
Expenses		
Wages and benefits	40,142,329	37,334,778
Linen	10,238,433	9,396,962
Utilities	6,626,307	5,728,452
Delivery	3,643,869	2,780,344
Occupancy costs	3,032,291	2,405,533
Repairs and maintenance	3,008,801	2,227,415
Materials and supplies	2,914,738	2,465,795
Corporate	3,111,187	2,573,468
	72,717,955	64,912,747
Earnings before the undernoted	12,395,339	9,188,194
Other expenses		
Amortization of property, plant and equipment	(5,053,611)	(3,684,034)
Amortization of intangible assets	(2,149,978)	(2,071,184)
Financial charges (note 8)	(686,731)	(879,747)
(Loss) gain on disposal of property, plant and equipment	(506,668)	2,838
	(8,396,988)	(6,632,127)
Earnings before income taxes	3,998,351	2,556,067
Income tax recovery (note 10)	819,737	1,558,114
Net earnings for the year	4,818,088	4,114,181
Deficit – beginning of year	(4,573,837)	(2,641,898)
Distributions to unitholders (note 14)	(7,554,000)	(6,046,120)
Deficit – end of year	(7,309,749)	(4,573,837)
	$	**$**
Net earnings per unit		
Basic	0.72	0.75
Diluted	0.71	0.75
	#	**#**
Weighted average number of units outstanding (note 12e))		
Basic	6,719,305	5,464,487
Diluted	6,747,522	5,498,318

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

K-Bro Linen Income Fund
Consolidated Statements of Comprehensive Income

	Year ended December 31,	
	2008 **$**	**2007** **$**
Net earnings for the year	4,818,088	4,114,181
Other comprehensive loss		
Unrealized loss on derivative instruments designated as cash flow hedges, net of future income taxes of $50,340 (2007 – $13,156)	(113,639)	(26,186)
Other comprehensive loss for the year	(113,639)	(26,186)
Comprehensive income for the year	4,704,449	4,087,995

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

K-Bro Linen Income Fund

Consolidated Statements of Cash Flows

	Year ended December 31,	
	2008	**2007**
	$	**$**
Cash provided by (used in)		
Operating activities		
Net earnings for the year	4,818,088	4,114,181
Items not affecting cash		
Amortization of property, plant and equipment	5,053,611	3,684,034
Amortization of intangible assets	2,149,978	2,071,184
Amortization of lease inducements	(42,174)	-
Loss (gain) on disposal of property, plant and equipment	506,668	(2,838)
Future income taxes	(819,737)	(1,558,114)
	11,666,434	8,308,447
Net change in non-cash working capital items (note 15)	3,788,404	(1,366,321)
Cash provided by operating activities	15,454,838	6,942,126
Financing activities		
Fund units issued – net of issue costs	18,092,544	-
Distributions paid to unitholders	(7,415,697)	(6,046,120)
(Decrease) increase in long term debt revolving line of credit	(12,565,822)	7,348,678
Cash (used) provided by financing activities	(1,888,975)	1,302,558
Investing activities		
Purchase of property, plant and equipment	(9,744,642)	(8,294,811)
Business acquisition (note 3)	(3,311,349)	-
Escrow funds (note 3)	(540,500)	-
Deferred charges (note 4)	(132,631)	-
Proceeds from disposal of equipment	163,259	50,127
Cash used in investing activities	(13,565,863)	(8,244,684)
Change in cash	-	-
Cash - beginning of year	-	-
Cash – end of year	-	-
Supplementary cash flow information		
Interest paid	533,361	820,751
Non-cash financing and investing activities		
Equipment purchases included in accounts payable and accrued liabilities	1,082,763	3,091,099
Distribution included in distribution payable	138,303	-
Leasehold improvements included in lease inducements	-	576,376

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

1 Business description

K-Bro Linen Income Fund (the "Fund") is a limited purpose trust established under the laws of Alberta pursuant to the Amended and Restated Fund Declaration of Trust dated February 3, 2005. The Fund was created for the purpose of acquiring, directly or indirectly, all of the issued and outstanding securities of K-Bro Linen Systems Inc. K-Bro Linen Systems Inc. provides a range of services to healthcare institutions, hotels and other commercial accounts. These services include the processing, management and distribution of linen.

2 Significant accounting policies

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The precise determination of many assets and liabilities is dependent upon future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. These consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

a) Basis of presentation

These consolidated financial statements include the Fund, its wholly owned subsidiary K-Bro Linen Systems Inc. and the LTIP Trust, a variable interest entity (note 13). All material intercompany balances and transactions have been eliminated upon consolidation. These consolidated financial statements are for the years ended December 31, 2008 and 2007.

b) Linen in service

Linen in service is recorded at cost. Operating room linen is amortized using the straight-line method over the estimated service life of 24 months. General linen is amortized based on usage which results in an estimated average service life of 24 months.

c) Revenue recognition

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

d) Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is provided over the estimated useful life of the asset using the following annual rates and methods:

Building	5% declining balance
Laundry equipment	15% declining balance
Office and delivery equipment	20% declining balance
Computers and software	30% declining balance
Leasehold improvements	Straight-line over the initial lease period
Asset under development	At applicable rates and methods when put into service

e) Intangible assets

Intangible assets with a finite life, which relate to contracts the Fund has with certain customers, are recorded at cost and are amortized using the straight-line method over the remaining life of the contract plus one renewal period, ranging from 13 months to 169 months.

f) Impairment of long-lived assets

The Fund assesses impairment of its long-lived assets (property, plant and equipment and finite life intangible assets) when events or changes in circumstances cause the carrying value of an asset to exceed the total undiscounted cash flows expected from its use and eventual disposition. An impairment loss, if any, is determined as the excess of the carrying value of the asset over its fair value.

g) Future income taxes

The Fund is a mutual fund trust for income tax purposes. As such, the Fund is currently only taxable on any amount not distributed to unitholders and income tax liabilities relating to distributions of the Fund are taxed in the hands of the unitholders. As substantially all taxable income is distributed to the unitholders, no provision for current income taxes on earnings of the Fund is made in the financial statements. On June 11, 2007, the Canadian federal government substantively enacted legislation whereby the income tax rules applicable to publicly traded trusts was significantly modified. In particular, income earned by a trust will be taxed in a manner similar to income earned and distributed by a corporation. The legislation is effective for the 2007 taxation year, but the application of the rules is delayed to the 2011 taxation year with respect to trusts that were publicly traded prior to November 1, 2006 within certain guidelines. For the Fund, only temporary differences expected to reverse after January 1, 2011 are taken into account in the determination of the provision for income taxes.

The incorporated subsidiary of the Fund calculates income taxes using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using substantively enacted tax rates applicable to the period that the temporary differences are expected to reverse. Future income tax assets are only recognized to the extent that, in the opinion of management, they will more likely than not be utilized. The effect on future income tax assets or liabilities is recognized in income in the period that the change occurs.

Income tax obligations relating to distributions of the Fund are the obligations of the unitholders and, accordingly, no provision for income taxes has been made in respect of the assets and liabilities of the Fund. The enactment of the new legislation did not have a significant impact on the Fund's consolidated financial statements.

h) Goodwill

Goodwill represents the excess of the cost of business acquisitions over the fair value of net identifiable assets acquired. Goodwill is not amortized but is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. Goodwill will be written down when the carrying value exceeds the fair value. Management has determined that there was no goodwill impairment at December 31, 2008 or 2007.

i) Volume rebates

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

j) Financial instruments

The Fund has made the following classifications:

- Cash and temporary investments will be classified as financial assets held for trading and measured at fair value. Gains and losses related to periodical revaluation are recorded in net income.

- Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequent periodical revaluations are recorded at amortized cost using the effective interest rate method.

- Accounts payable and accrued liabilities, distribution payable and long-term debt are classified as other liabilities and are initially measured at fair value and subsequent periodical revaluations are recorded at amortized cost using the effective interest rate method.

Initially, all financial assets and financial liabilities must be recorded on the balance sheet at fair value. Subsequent measurement is determined by the classification of each financial asset and liability. Unrealized gains and losses on financial assets that are held as available for sale are recorded in other comprehensive income until realized, at which time they will be recorded in the consolidated statement of earnings. All derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value in the consolidated balance sheet. Transaction costs related to financial instruments are generally capitalized and then amortized over the expected life of the financial instrument using the effective yield method.

k) Adoption of new accounting policies

(i) Capital disclosures

On January 1, 2008, the Fund adopted Section 1535 of the Canadian Institute of Chartered Accountants' ("CICA") Handbook, "Capital Disclosures." This Section requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objectives, policies and processes for managing capital. The adoption of this standard did not have an impact on the consolidated financial statements as the standard relates to note disclosure as per Note 17.

(ii) Financial instruments-disclosure and Financial instruments-presentation

On January 1, 2008, the Fund adopted Section 3862 "Financial Instruments– Disclosure" and Section 3863 "Financial Instruments – Presentation" of the CICA Handbook. These sections replace Section 3861 "Financial Instruments – Disclosure and Presentation." The objective of Section 3862 is to provide users with information to evaluate the significance of the financial instruments on the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how the entity manages those risks. The provisions of Section 3863 deal with the classification of financial instruments, related interest, dividends, losses and gains and the circumstances in which financial assets and financial liabilities are offset. The adoption of these standards did not have an impact on the consolidated financial statements as the standards relate to note disclosure as per Note 16.

(iii) Inventories

On January 1, 2008, the Fund adopted Section 3031 of the CICA Handbook, "Inventories." This Section replaces the previous standard for inventories, Section 3030. Adoption of this standard had no impact on the consolidated financial statements.

l) Future changes in accounting policies

(i) Goodwill and intangible assets

In February 2008, the CICA issued a new accounting standard – Section 3064 "Goodwill and intangible assets" which replaces the existing standard for goodwill and other intangible assets in Section 3062 and research and development costs in Section 3450. The new Section is effective for the Fund beginning January 1, 2009; however, earlier adoption is encouraged. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. In accordance with this new policy, deferred charges at December 31, 2008 of $132,631 will be written off retrospectively against equity in 2009 with restatement of comparative amounts.

(ii) International Financial Reporting Standards

The Accounting Standards Board of Canada has announced that accounting standards in Canada, as used by public companies, will be converged to International Financial Reporting Standards ("IFRS") effective January 1, 2011. The Fund will convert to these new standards according to the timetable set with these new rules. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

IFRS uses a conceptual framework similar to Canadian GAAP but there are significant differences in recognition, measurement and disclosure requirements. As a result, the Fund has established a changeover plant to convert to these new standards according to the timetable set with these new rules. An implementation plan has been created and will be executed primarily with internal resources. The Fund will complete the scoping and diagnostic phase in the first quarter of 2009 and will then move to the impact analysis and design phase. The Fund's preliminary analysis of IFRS in comparison to Canadian GAAP has identified a number of differences. At this time, the impact on our future financial position and results of operations is not reasonably determinable or estimable. The Fund will continually review and adjust the changeover plan to ensure the implementation process properly addresses the key elements of the plan.

(iii) Business combinations

Section 1582 "Business combinations" will be applicable to business combinations for which the acquisition date is on or after the Fund's interim and fiscal year beginning January 1, 2011. Early adoption is permitted. The section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and it effects. The Fund has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

(iv) Consolidated financial statements

Section 1601 "Consolidated financial statements" will be applicable to financial statements relating to the Fund's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Fund has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

(v) Non-controlling interests

Section 1602 "Non-controlling interests" will be applicable to financial statements relating to the Fund's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Fund has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

3 Business acquisition

On January 31, 2008, the Fund completed the acquisition of the laundry business, linen, property and equipment of Buanderie HMR Inc. located in Quebec City, Quebec. The business acquisition has been accounted for using the purchase method, whereby the purchase consideration was allocated to the fair values of the net assets acquired at January 31, 2008. The allocation is based on management's best estimate of the fair value of net assets acquired.

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

	$
Consideration	
Purchase price including acquisition costs	3,851,849
Less	
Restricted escrow funds	(540,500)
Net cash consideration	3,311,349
Net assets acquired	
Net working capital	62,397
Linen	125,000
Property, plant and equipment	2,160,000
Intangible assets	850,000
Goodwill	113,952
	3,311,349

Of the cash consideration payable to the vendor, $540,500 was deposited into escrow with an escrow agent. The full amount of the funds held in escrow will be released to the vendor in 2009 upon the determination that specified earnings before interest, income taxes and amortization were met in the twelve-month period subsequent to the acquisition. Goodwill will be correspondingly increased by the amount released. Management expects that the full amount will be paid to the vendor by March 31, 2009.

4 Deferred charges

Deferred charges relate to net expenditures during the pre-operating period of the new Calgary plant, which are being amortized on a straight-line basis over the ten-year period of the associated lease. These charges will be written off in 2009 as per Note 2l(i).

5 Property, plant and equipment

			2008
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Land	70,000	-	70,000
Building	550,013	25,209	524,804
Equipment			
Laundry[1]	34,865,253	10,047,651	24,817,602
Office	644,938	147,653	497,285
Delivery	467,656	204,865	262,791
Computers and software	1,293,542	616,283	677,259
Leasehold improvements	10,985,452	1,811,154	9,174,298
	48,876,854	12,852,815	36,024,039

(1) Of this total, $1,082,763 is included in accounts payable.

			2007
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Equipment			
Laundry	25,740,872	6,925,484	18,815,388
Office	219,308	86,151	133,157
Delivery	433,578	158,466	275,112
Computers and software	845,624	420,855	424,769
Leasehold improvements	3,413,524	1,261,552	2,151,972
Asset under development-new Calgary plant[2]	10,063,932	-	10,063,932
	40,716,838	8,852,508	31,864,330

(2) Of this total, $3,091,099 is included in accounts payable and $576,376 is included in unamortized lease inducements.

6 Intangible assets

			2008
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Finite life intangible assets			
Healthcare contracts	15,700,000	4,418,441	11,281,559
Operating room contracts	3,500,000	1,912,790	1,587,210
Hospitality contracts	4,697,000	1,492,551	3,204,449
	23,897,000	7,823,782	16,073,218

			2007
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Finite life intangible assets			
Healthcare contracts	15,700,000	3,290,328	12,409,672
Operating room contracts	3,500,000	1,424,418	2,075,582
Hospitality contracts	3,847,000	959,058	2,887,942
	23,047,000	5,673,804	17,373,196

7 Long-term debt

K-Bro Linen Systems Inc. has a revolving credit facility of up to $30,000,000 of which $4,496,285 is drawn (including letters of credit totalling $435,000 per note 11(a)). The facility is a two-year committed facility maturing February 28, 2010. It is extendable annually for another year at the lender's option and subsequent to December 31, 2008 it was extended to February 28, 2011. 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. At December 31, 2008 for Bankers' Acceptances the margin varied from 2.00% to 3.00% and for Canadian prime rate loans, the margin varied from 0.50% to 1.50%. Subsequent to December 31, 2008, these margins in each case were increased by 0.50%.

The balance consists of:

	2008	**2007**
	$	**$**
Bankers' Acceptances, 3.64% (2007 – 7.10%)	4,000,000	4,000,000
Prime rate loan, 4.00% (2007 – 7.00%)	61,285	12,627,107
	4,061,285	16,627,107

8 Financial charges

	Year ended December 31,	
	2008	**2007**
	$	**$**
Interest on long-term debt	533,361	820,751
Other charges	153,370	58,996
	686,731	879,747

9 Unamortized lease inducements

Lease inducements are received from certain of the Fund's landlords, primarily in the form of leasehold improvements and rent-free periods. Lease inducements are recorded as a liability when credited or received and will be 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 will be recorded as an increase or reduction in deferred lease inducements.

The Fund entered into a ten-year lease for a new facility in Calgary in 2007 which included certain lease inducements. These inducements totalling $585,748 include leasehold improvements and a rent-free period. Accumulated amortization at December 31, 2008 is $65,604 (December 31, 2007 – $9,372). Of this accumulated amortization at December 31, 2008, $23,430 (December 31, 2007 – $9,372) was capitalized during the pre-opening period to leasehold improvements.

10 Income taxes

A reconciliation of the expected income tax recovery (expense) to the actual income tax recovery (expense) is as follows:

	Year ended December 31, 2008 $	2007 $
Canadian statutory rates (federal and provincial)	30.7%	33.4%
Expected expense for income taxes	(1,227,094)	(853,726)
Change resulting from:		
Non-deductible items	(42,471)	(24,235)
Impact of substantively enacted rates and other	(110,671)	559,529
Income of the Fund allocated to unitholders	2,199,973	1,876,546
Actual provision for income tax recovery	819,737	1,558,114

Future income tax assets (liabilities) are attributable to the following items:

	Year ended December 31, 2008 $	2007 $
Linen in service	172,119	(299,969)
Accounts payable and accrued liabilities	253,913	193,366
Current future income tax asset (liability)	426,032	(106,603)
Property and equipment	(725,530)	(1,022,216)
Intangible assets and goodwill	(3,767,294)	(4,304,982)
Offering costs and other	537,179	582,230
Long-term future income tax liability	(3,955,645)	(4,744,968)
Future income tax liability, net	(3,529,613)	(4,851,571)

The benefit of deductible temporary differences of $300,000 (2007 – $600,000) relating to offering costs borne directly by the Fund have not been recorded. The amount of goodwill deductible for tax purposes is $3,321,984 (2007 – $3,208,033).

11 Contingencies and commitments

a) Contingencies

Letters of credit

The Fund has outstanding letters of credit issued as part of normal business operations in the amounts of $185,000 (2007 – $185,000) expiring January 21, 2010 and $250,000 (2007 – $250,000) expiring January 24, 2010.

b) Commitments

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 years are as follows:

	$
2009	4,602,991
2010	3,242,505
2011	2,052,890
2012	1,971,456
2013	1,771,144
Subsequent	3,971,850

Linen purchase commitments

At December 31, 2008, the Fund was committed to linen expenditure obligations in the amount of $2,196,023 (December 31, 2007 – $2,741,266).

Equipment purchase commitments

The Fund has commitments to purchase equipment totalling $nil at December 31, 2008 (December 31, 2007 – $126,000).

12 Unitholders' equity

a) Authorized

The declaration of trust provides that an unlimited number of units and an unlimited number of Special Trust Units may be issued.

b) Issued and outstanding

On February 27, 2008 the Fund completed the issuance of 1,362,000 Units at a price of $12.85 per Unit. Net proceeds to the Fund after commission and expenses, net of tax, were $16.7 million. The underwriters were also granted an over-allotment option, exercisable in whole or in part for a period of 30 days following closing, to purchase up to an additional 204,300 units at the same offering price. On March 28, 2008, the over-allotment option was exercised in part and 146,700 additional Units were issued at a price of $12.85 per Unit. Net proceeds to the Fund after commission and expenses, net of tax, were $1.8 million.

Fund Units	**#**	**$**
Balance at December 31, 2007 and 2006	5,423,862	52,210,472
Issued on February 27, 2008 at $12.85 per Unit	1,362,000	17,501,700
Offering costs – net of future tax recovery of $341,000		(842,959)
Issued on March 28, 2008 at $12.85 per Unit	146,700	1,885,095
Offering costs – net of future tax recovery of $31,500		(78,792)
	1,508,700	18,465,044
Balance at December 31, 2008	6,932,562	70,675,516
Exchangeable shares	**#**	**$**
Balance at December 31, 2008 and 2007	72,411	724,110
Total Fund Units and Exchangeable shares issued	7,004,973	

The exchangeable shares were issued by the Fund's subsidiary to certain members of management and are exchangeable on a one-to-one basis for Fund Units. The risks and privileges of these shares are the same as for Fund Units. The exchangeable shares of the Fund's subsidiary are synonymous with the Special Trust Units of the Fund.

c) Contributed surplus

	Year ended December 31, 2008 $	2007 $
Balance, beginning of year	413,671	184,635
Net stock based compensation recorded	319,628	302,294
Issuance of vested Units to participants	(392,571)	(73,258)
Balance, end of year	340,728	413,671

d) Accumulated other comprehensive (loss) income

	Year ended December 31, 2008	2007 $
Balance, beginning of year, as previously reported	1,899	-
Financial instruments – recognition and measurement	-	28,085
Restated balance, beginning of year	1,899	28,085
Other comprehensive loss during the year	(113,639)	(26,186)
Balance, end of year	(111,740)	1,899

e) Weighted average number of units outstanding

	Year ended December 31, 2008 #	2007 #
Weighted average unit calculation		
Basic		
Units – opening	5,496,273	5,496,273
Weighted average units issued during the year	1,262,115	-
Weighted average unvested units purchased for LTIP	(39,083)	(31,786)
Weighted average units for the year	6,719,305	5,464,487
Diluted		
Basic weighted average units	6,719,305	5,464,487
Dilutive effect of LTIP units	28,217	33,831
	6,747,522	5,498,318

13 Long Term Incentive Plan

In April, 2006, a trust (the "LTIP Trust") was formed to hold Units of the Fund on behalf of the participants of the Fund's long-term incentive plan (the "LTIP"). The Fund is neither a trustee nor a direct participant of the LTIP; however, under certain circumstances the Fund may be the beneficiary of forfeited Units held by the LTIP Trust. Consequently, the LTIP Trust is considered a variable interest entity for accounting purposes and the Fund has consolidated the LTIP Trust in accordance with the CICA issued Accounting Guideline AcG-15. For a specific performance year, one-quarter of the Units held by the LTIP Trust vest to the participants of the LTIP thirty days after approval of the audited financial statements by the Trustees upon the participant signing a Participation Agreement and Confirmation and three-quarters will vest on the second anniversary of that date upon continued employment, except in limited circumstances. Compensation expense is recorded by the Fund in the period earned. Distributions made by the Fund with respect to unvested Units held by the LTIP Trust are paid to LTIP participants. Unvested units held by the LTIP Trust are shown as a reduction of unitholders' equity.

In accordance with the LTIP agreement and in conjunction with the performance of the Fund in the prior fiscal year, the Compensation, Nominating and Corporate Governance Committee of the Trustees of the Fund in 2008 approved LTIP compensation of $0.3 million (2007 – $0.3 million) and approved the funding and transfer of $0.3 million (2007 – $0.3 million) of cash to the LTIP Trust in March 2008 and April 2007 respectively in order to fund the purchase of Units by the LTIP Trust. In March 2008, the LTIP Trust purchased 24,751 Units of the Fund (2007 – 22,647). As at December 31, 2008, 38,961 Units held by the LTIP Trust have vested (December 31, 2007 – 12,436).

The basic net earnings per unit calculation exclude the unvested units held by the LTIP Trust.

14 Distributions to unitholders

The Fund's policy is to make distributions to unitholders 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 Trustees of the Fund. All such distributions are discretionary. Distributions are declared payable each month to the Fund unitholders and exchangeable shareholders on the last business day of each month and are paid by the 15^{th} day of the following month.

During the year ended December 31, 2008, the Fund declared total distributions to Unitholders and Exchangeable Unitholders of $7,554,000 (2007 – $6,046,120) or $1.10 per unit (2007 – $1.10).

15 Net change in non-cash working capital items

	Year ended December 31, 2008	2007
Cash provided (used) by changes in	**$**	**$**
Accounts receivable	719,182	(1,700,543)
Linen in service	929,238	(66,776)
Prepaid expenses and deposits	188,696	(316,792)
Accounts payable and accrued liabilities	1,951,288	717,790
	3,788,404	(1,366,321)

16 Financial instruments

Fair value

The Fund's financial instruments at December 31, 2008 consist of accounts receivable, accounts payable and accrued liabilities, distribution payable to unitholders, long-term debt, and an interest rate swap agreement. The carrying value of accounts receivable, accounts payable and accrued liabilities, and distribution payable to unitholders approximate fair value due to the immediate or short-term maturity of these financial instruments. The fair value of the Fund's long-term debt is estimated based on market prices for same or similar instruments and approximates carrying value. The interest rate swap agreement is a derivative designated as an effective hedge and is measured at fair value with subsequent changes in fair value being charged to other comprehensive income.

Financial risk management

The Fund's activities are exposed to a variety of financial risks: price risk, credit risk and liquidity risk. The Fund's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Fund's financial performance. Risk management is carried out by financial management in conjunction with overall Fund governance.

Price risk

There are three types of price risk:

Currency risk – Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Fund is not significantly exposed to foreign currency risk as all revenues are received in Canadian dollars and minimal expenses are incurred in foreign currencies. For large capital expenditure commitments denominated in a foreign currency, the Fund will enter into foreign exchange forward contracts if considered prudent to mitigate this risk. At December 31, 2008, no foreign exchange forward option contracts were outstanding. Based on the Fund's US dollar liability for equipment purchases at December 31, 2008, a 1% change in the Canadian-US dollar foreign exchange rate would result in a $7,500 change in the amount recorded in property, plant and equipment.

Interest rate risk – The Fund is subject to interest rate risk as its credit facility bears interest at rates that depend on certain financial ratios of the Fund and vary in accordance with market interest rates. On June 24, 2005, the Fund entered into an interest rate swap arrangement whereby the interest rate paid on a notional amount of $4 million of this debt has been fixed at 5.95% for a period of five years. The floating rate of interest that was swapped for this fixed rate is currently at 3.64%. Based on the outstanding balance on the Fund's revolving credit facility for which the interest rate has not been fixed at December 31, 2008, a 1% fluctuation in the Canadian prime rate would result in a negligible change in annual interest expense. Management does not believe that the impact of interest rate fluctuations will be significant.

Other price risk – The Fund's exposure to other price risk is limited since there are no significant financial instruments which fluctuate as a result of changes in market prices.

Credit risk

The Fund's financial assets that are exposed to credit risk consist primarily of accounts receivable and an interest rate swap agreement. The Fund, in the normal course of business, is exposed to credit risk from its customers. The Fund is exposed to credit loss in the event of non-performance by counterparties to the interest rate swap. Management believes that the risks associated with concentrations of credit risk with respect to accounts receivable and the interest rate swap are limited due to the nature of the customers and the swap counterparty serviced by the Fund and the generally short payment terms and frequent settlement of swap differences.

The following outlines the details of the aging of the Fund's receivables and related allowance for doubtful accounts:

	2008 **$**
Current	6,701,444
Past due amounts:	
1 – 30 days	1,851,171
Greater than 30 days	160,028
Less: allowance for doubtful accounts	(42,704)
Accounts receivable, net	8,669,939

Liquidity risk

The Fund has long-term debt with a maturity date of February 28, 2010 (see note 7). Subsequent to December 31, 2008 this maturity date was extended to February 28, 2011. The degree to which the Fund is leveraged may reduce its ability to obtain additional financing for working capital and to finance investments to maintain and grow the current levels of cash flows from operations. The Fund may be unable to extend the maturity date of the credit facility.

Management, to reduce liquidity risk, has historically renewed the terms of the credit facility in advance of its maturity dates and the Fund has maintained financial ratios that management believes are conservative compared to financial covenants applicable to the credit facility. A significant portion of the available facility remains undrawn.

Management measures liquidity risk through comparisons of current financial ratios with financial covenants contained in the credit facility.

Hedge accounting

Where derivatives are held for risk management purposes or when transactions meet the criteria, including documentation requirements, specified in the CICA Handbook Section 3865, hedge accounting is applied to the risks being hedged. When hedge accounting is not applied, the change in the fair value of the derivative is recognized in earnings.

The Fund applied hedge accounting on the interest rate swap agreement outstanding at December 31, 2008.

17 Capital management

The Fund views its capital resources as the aggregate of its debt, unitholders' equity, internally generated funds, amounts available under credit facilities and cash on hand. In general, the overall capital of the Fund is evaluated and determined in the context of its financial objectives and its strategic plan.

With respect to its level of indebtedness, the Fund determines the appropriate level in the context of its cash flow and overall business risks. The Fund has historically generated cash flow in excess of distributions and has used such excess to fund capital expenditures, working capital, growth capital and other reserves considered advisable by the Trustees of the Fund. The Fund would consider increasing its level of indebtedness relative to cash flow to assist in the financing of an acquisition or expansion. As well, the Fund will review its level of indebtedness in the context of the change in taxation impacting the Fund commencing 2011.

The Fund's indebtedness is subject to a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests which are subject to an appropriate cure period if necessary. One such ratio is the Total Funded Debt / EBITDA Ratio as defined in the credit facility (see note 7). The maximum ratio allowed for a 12-month trailing period is 2.75, which is increased to 3.25 for the two quarters immediately following an acquisition. For the twelve months ended December 31, 2008, this ratio was calculated at 0.38 (twelve months ended December 31, 2007 – 1.86). Management also uses this ratio as a key indicator in managing the Fund's capital. EBITDA is defined in the credit facility as net earnings plus interest expense, income taxes, and amortization expense. For the purpose of the calculation of the Fund's financial ratios under the credit facility, EBITDA is calculated on a rolling four quarter basis.

With respect to its equity, the current level of capital is considered adequate in the context of current operations and the present strategic plan of the Fund. Any major acquisitions or expansions may be financed in part with additional equity. The Fund will also review its level of equity in the context of the change in taxation impacting the Fund commencing 2011.

The Fund's capital resources, comprised of long-term debt, unitholders' equity and amounts available under its committed revolving credit facility, totalled $93.4 million at December 31, 2008 (2007 – $77.8 million). Available liquidity as at December 31, 2008 consisting of unused committed revolving credit facility was $25.5 million (2007 – $12.9 million). The Fund has incurred no events of default under the terms of its credit facility agreement.

18 Segmented information

The Fund provides laundry and linen services to the healthcare and hospitality sectors through six operating segments in Vancouver, Victoria, Calgary, Edmonton, Toronto and Quebec City. The services offered and the economic characteristics associated with these segments are similar, therefore these segments have been aggregated into one reportable segment which operates exclusively in Canada. The results of the Quebec City operation acquired (see note 3) are reported commencing February 1, 2008.

Total revenue derived from the healthcare and hospitality sectors are as follows:

	Year ended December 31, 2008	
	$	**%**
Healthcare	64,698,218	76.0
Hospitality	20,415,076	24.0
Total	85,113,294	100.0

	Year ended December 31, 2007	
	$	**%**
Healthcare	57,393,080	77.5
Hospitality	16,707,861	22.5
Total	74,100,941	100.0

In Edmonton, the Fund is the significant supplier of laundry and linen services to the entity which manages all major healthcare facilities in the region. This contract expires on December 31, 2010. In Calgary, the major customer is contractually committed to February 28, 2018 and in Vancouver the major customer is contractually committed to January 15, 2013.

For the year ended December 31, 2008, the Fund has recorded revenue of $49.4 million (year ended December 31, 2007 – $42.8 million) from these three major customers, representing 58% (2007 – 58%) of total revenue.

19 Related party transaction

The Fund has incurred expenses in the normal course of business for advisory consulting services provided by a Trustee relating to acquisitions. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms. For the year ended December 31, 2008, the Fund incurred such fees totalling $74,000 (2007 – $46,000). Of the total 2008 amount, $23,000 is included in acquisition costs related to the assets of Buanderie HMR Inc. (see note 3) and $51,000 is included in Corporate expenses.