



Consolidated
Financial
Statements
Year Ended
December 31,
2011

dependable.



March 13, 2012

Independent Auditor's Report

To the Shareholders of K-Bro Linen Inc.

We have audited the accompanying consolidated financial statements of K-Bro Linen Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of K-Bro Linen Inc. and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

Consolidated Statements of Financial Position

(thousands of Canadian dollars)

	December 31, 2011	December 31, 2010 <i>(note 23)</i>	January 1, 2010 <i>(note 23)</i>
ASSETS			
Current assets			
Accounts receivable	\$ 14,902	\$ 13,352	\$ 9,451
Linen in service	8,182	7,840	7,249
Prepaid expenses and deposits	1,450	798	607
	24,534	21,990	17,307
Deferred income taxes	-	-	449
Property, plant and equipment (note 6)	33,095	33,857	33,812
Intangible assets (note 7)	13,340	15,199	14,595
Goodwill (note 8)	20,456	19,633	16,220
	\$ 91,425	\$ 90,679	\$ 82,383
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	\$ 14,790	\$ 13,326	\$ 9,880
Income taxes payable	1,857	-	-
Dividends payable to shareholders	642	-	642
	17,289	13,326	10,522
Long-term debt (note 9)	6,095	10,763	4,043
Unamortized lease inducements (note 11)	512	566	611
Deferred income taxes (note 12)	4,596	3,446	3,713
	\$ 28,492	\$ 28,101	\$ 18,889
SHAREHOLDERS' EQUITY			
Share capital (note 14)	69,493	69,799	70,566
Contributed surplus	1,580	1,141	572
Deficit	(8,140)	(8,362)	(7,609)
Accumulated other comprehensive loss	-	-	(35)
	\$ 62,933	\$ 62,578	\$ 63,494
Contingencies and commitments (note 13)	\$ 91,425	\$ 90,679	\$ 82,383

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

Consolidated Statements of Earnings & Comprehensive Income

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

Years ended December 31	2011	2010 (note 23)
Revenue	\$ 116,859	\$ 104,051
Expenses		
Wages and benefits	54,185	47,848
Linen	12,031	10,603
Utilities	8,688	8,361
Delivery	4,900	3,993
Repairs and maintenance	3,843	3,416
Occupancy costs	3,810	3,762
Materials and supplies	3,765	3,492
Corporate	5,691	5,699
	96,913	87,174
EBITDA (note 19)	19,946	16,877
Other expenses		
Depreciation of property, plant and equipment	5,938	6,391
Amortization of intangible assets	2,628	2,540
Financial charges (note 10)	412	643
Loss on disposal of property, plant and equipment	80	187
	9,058	9,761
Earnings before income taxes	10,888	7,116
Current income tax expense	1,862	-
Deferred income tax expense	1,098	163
Income tax expense	2,960	163
Net earnings	7,928	6,953
Gain on derivative financial instruments, net	-	(50)
Comprehensive income	\$ 7,928	\$ 7,003
Net earnings per share:		
Basic	\$ 1.15	\$ 1.01
Diluted	\$ 1.14	\$ 0.99
Weighted average number of shares outstanding (note 14c):		
Basic	6,918,955	6,905,369
Diluted	6,980,489	6,992,400

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

Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)

Years Ended December 31	2011	2010
Exchangeable shares		
Balance, beginning of year	\$ 724	\$ 724
Conversion into Common shares	(724)	-
Balance, end of year	\$ -	\$ 724
Fund units		
Balance, beginning of year	\$ 70,676	\$ 70,676
Conversion into Common shares	(70,676)	-
Balance, end of year	\$ -	\$ 70,676
Common shares		
Balance, beginning of year	\$ -	\$ -
Conversion of exchangeable shares	724	-
Conversion of fund units	70,676	-
Balance, end of year	\$ 71,400	\$ -
Shares/Fund units held in trust		
Balance, beginning of year	\$ (1,601)	\$ (834)
Change during the year	(306)	(767)
Balance, end of year	\$ (1,907)	\$ (1,601)
Total share capital	\$ 69,493	\$ 69,799
Contributed surplus		
Balance, beginning of year	\$ 1,141	\$ 572
Share-based compensation	439	569
Balance, end of year	\$ 1,580	\$ 1,141
Deficit		
Balance, beginning of year	\$ (8,362)	\$ (7,609)
Net earnings	7,928	6,953
Dividends declared (note 16)	(7,706)	(7,706)
Balance, end of year	\$ (8,140)	\$ (8,362)
Accumulated other comprehensive income		
Balance, beginning of year	\$ -	\$ (35)
Unrealized gain on derivative financial instruments, net	-	35
Balance, end of year	\$ -	\$ -
Total Shareholders' Equity	\$ 62,933	\$ 62,578

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

Consolidated Statements of Cash Flow

(thousands of Canadian dollars)

Years Ended December 31	Twelve Months Ended December 31,	
	2011	2010
OPERATING ACTIVITIES		
Net earnings	\$ 7,928	\$ 6,953
Depreciation of property, plant and equipment	5,938	6,391
Amortization of intangible assets	2,628	2,540
Amortization of lease inducements (note 11)	(54)	(45)
Loss on disposal of property, plant and equipment	80	187
Settlement of interest rate swaps	-	(15)
Deferred income taxes	1,098	163
	17,618	16,174
Change in non-cash balances relating to operations (note 17)	1,242	549
Cash provided by operating activities	18,860	16,723
FINANCING ACTIVITIES		
Proceeds from revolving credit facility	4,317	12,924
Repayments to revolving credit facility	(8,985)	(6,204)
Dividends paid to shareholders (note 16)	(7,064)	(8,348)
Cash used in financing activities	(11,732)	(1,628)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,847)	(2,613)
Proceeds from disposal of property, plant and equipment	36	21
Purchase of intangible assets	-	(244)
Acquisition of businesses (note 5)	(4,317)	(12,259)
Cash used in investing activities	(7,128)	(15,095)
Change in cash during the year	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -
Supplementary cash flow information		
Interest paid	\$ 274	\$ 438
Income taxes	\$ 5	\$ -

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

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 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 head office is #103, 15023 – 123 Avenue, Edmonton, Alberta, Canada.

These audited annual Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors ("the Board") on March 13, 2012.

1 Basis of Presentation

a) Conversion from an income fund

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.

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.

b) Adoption of IFRS

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Corporation commenced reporting on this basis in its 2011 consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The consolidated financial statements have been prepared in accordance with IFRS. Subject to certain transition elections disclosed in note 23, the Corporation has consistently applied the same accounting policies in its consolidated opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 23 discloses the impact of the transition to IFRS on the Corporation's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Corporation's consolidated financial statements prepared under Canadian GAAP for the year ended December 31, 2010. Comparative figures for 2010 in these financial statements have been restated to give effect to these changes.

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

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 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.

b) Principles of Consolidation

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

c) 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.

d) 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.

e) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated 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 major categories of property, plant and equipment are depreciated on a straight-line basis as follows:

Asset	Rate
Buildings	15-25 years
Laundry equipment	7-20 years
Office equipment	2-5 years
Delivery equipment	5 years
Computer equipment	2 years
Leasehold improvements	Lease term

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.

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

f) 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.

g) 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.

h) 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. These estimates are reviewed at least annually and are updated if expectations change as a result of changing client relationships or technological obsolescence.

i) 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.

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

Until January 1, 2011, 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.

j) Business Combinations

Business combinations are accounted for using the acquisition 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.

k) 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 CGU or group of CGUs, that are expected to benefit from the related business combination. A CGU represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

l) Volume Rebates

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

m) 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(n)(ii) and (iii)).

n) 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

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

ii) Equity-based compensation plan of the Fund

The officers and key employees of the predecessor Fund were eligible to participate in a long-term incentive plan ("LTIP"), which involved equity-settled share-based payments. The Fund 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 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.

The LTIP trustee purchased common shares in the open market and held 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 Trustees of the Fund approved the audited Consolidated Financial Statements (the "Determination Date"). The remaining three-quarters vested on the second anniversary of the Determination Date. In most circumstances, unvested grant amounts held by the trustee for an LTIP participant are forfeited if the participant resigns or is terminated for cause prior to the applicable vesting date, and any equity will be sold and the proceeds returned to the Corporation.

As of May 1, 2011 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 based on a percentage of annual salary. The amount of the award (net of withholding obligations) is satisfied by issuing treasury shares to be held in trust by the trustee pursuant to the terms of the New LTIP. All awards issued under the provisions of the LTIP are recorded as compensation expense.

Subject to the discretion of the 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 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.

o) 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.

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

Loans, receivables and other liabilities

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

The Corporation has made the following classifications:

	Classification	Measurement
Financial assets		
Accounts receivable	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

3 Accounting standards issued and not applied

In the first half of 2011, the IASB issued a number of new and revised accounting standards which are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. These new and revised accounting standards have not yet been adopted by the Corporation and there are no plans to adopt earlier than the effective date.

The following new or revised standards are not expected to have a material impact on the amounts recorded in the Consolidated Financial Statements of the Corporation:

- IFRS 9, *Financial Instruments*; was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income

- IFRS 10, *Consolidated Financial Statements*; requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.
- IFRS 12, *Disclosure of Interests in Other Entities*; establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

- IFRS 13, *Fair Value Measurement*; is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

In June 2011, the IASB also issued amended IAS 1, *Presentation of Financial Statements*, which is effective for annual periods beginning on or after July 1, 2012. The Corporation is still in the process of assessing the impact on the Consolidated Financial Statements of this revised standard.

4 Critical accounting estimates and judgments

The preparation of the Corporation's financial statements, in conformity with IFRS, requires management of the Corporation to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and judgments have been applied in a manner consistent with prior periods.

The following discusses the most significant accounting judgments and estimates that the Corporation has made in the preparation of the financial statements:

Impairment of goodwill and non-financial assets

The Corporation reviews goodwill at least annually and other non-financial assets when there is any indication that the asset might be impaired. The Corporation applies judgment in assessing the likelihood of renewal of significant contracts included in the intangible assets described in note 7. The Corporation has estimated the value in use and fair value of CGUs to which goodwill is allocated using discounted cash flow models that required assumptions about future cash flows, margins, and discount rates. Refer to note 8 for more details about methods and assumptions used in estimating net recoverable amount.

Recognition of Rebate Liabilities

In applying its accounting policy for volume rebates, the Corporation must determine whether the processing volume thresholds will be achieved. The most difficult and subjective area of judgment is whether a contract will generate satisfactory volume to achieve minimum levels. Management considers all appropriate facts and circumstances in making this assessment including historical experience, current volumetric run-rates, and expected future events.

Linen in Service

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. Linen in service is amortized across its estimated service life of 24 months and general linen is amortized based on usage which results in an estimated average service life of 24 months.

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

Management regularly evaluates these estimates and assumptions. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

5 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, was as follows:

	December 31, 2011 ⁽¹⁾
Cash consideration ⁽²⁾	\$ 4,317
<i>Net assets acquired:</i>	
Working capital, net	\$ 332
Property, plant & equipment	2,445
Intangible assets	769
Future income tax liabilities	(52)
Goodwill ⁽²⁾	823
	\$ 4,317

⁽¹⁾ For the year ended December 31, 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 December 31, 2011, it is estimated that the contingent consideration will be paid in full and therefore, the entire amount 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 was equivalent to their exchange amounts. All acquired accounts receivable were subsequently 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. Of the acquired goodwill in the transaction \$771 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 year ended December 31, 2011 as the Corporation and Dextraze have different fiscal periods and the Corporation does not have access to the necessary information.

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 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, was as follows:

	December 31, 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 23).

⁽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 23). 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

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

6 Property, plant and equipment

	Land	Buildings	Laundry Equipment	Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements	Spare Parts	Total
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 December 31, 2010									
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
Year ended, December 31, 2011									
Opening net book amount	\$ 70	\$ 461	\$ 25,009	\$ 219	\$ 790	\$ 63	\$ 6,733	\$ 512	\$ 33,857
Additions	-	-	2,331	56	10	73	197	180	2,847
Acquisition of business	55	720	1,616	18	-	36	-	-	2,445
Disposals	-	-	(43)	(3)	(69)	(1)	-	-	(116)
Depreciation charge	-	(59)	(4,385)	(90)	(90)	(71)	(1,243)	-	(5,938)
Closing net book amount	\$ 125	\$ 1,122	\$ 24,528	\$ 200	\$ 641	\$ 100	\$ 5,687	\$ 692	\$ 33,095
At December 31, 2011									
Cost	\$ 125	\$ 1,275	\$ 46,712	\$ 602	\$ 955	\$ 1,543	\$ 11,437	\$ 692	\$ 63,341
Accumulated depreciation	-	(153)	(22,184)	(402)	(314)	(1,443)	(5,750)	-	(30,246)
Net book amount	\$ 125	\$ 1,122	\$ 24,528	\$ 200	\$ 641	\$ 100	\$ 5,687	\$ 692	\$ 33,095

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

7 Intangible assets

	Healthcare Contracts	Hospitality Contracts	Computer Software	Total
Year ended, December 31, 2010				
Opening net book amount	\$ 11,252	\$ 2,664	\$ 679	\$ 14,595
Additions	-	-	244	244
Acquisition of business	-	2,900	-	2,900
Amortization charge	(1,616)	(745)	(179)	(2,540)
Closing net book amount	\$ 9,636	\$ 4,819	\$ 744	\$ 15,199

At December 31, 2010				
Cost	\$ 19,200	\$ 7,597	\$ 923	\$ 27,720
Accumulated amortization	(9,564)	(2,778)	(179)	(12,521)
Net book amount	\$ 9,636	\$ 4,819	\$ 744	\$ 15,199

Year ended, December 31, 2011				
Opening net book amount	\$ 9,636	\$ 4,819	\$ 744	\$ 15,199
Additions	-	-	-	-
Acquisition of business	-	769	-	769
Amortization charge	(1,616)	(827)	(185)	(2,628)
Closing net book amount	\$ 8,020	\$ 4,761	\$ 559	\$ 13,340

At December 31, 2011				
Cost	\$ 19,200	\$ 8,366	\$ 923	\$ 28,489
Accumulated amortization	(11,180)	(3,605)	(364)	(15,149)
Net book amount	\$ 8,020	\$ 4,761	\$ 559	\$ 13,340

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

8 Goodwill

The Corporation has eight cash-generating units each attributable to a processing plant. The Corporation performed its annual test for goodwill impairment as at December 31, 2011 in accordance with its policy described in note 2(k). Goodwill has been allocated to the following CGUs:

	December 31, 2011	December 31, 2010	January 1, 2010
Edmonton	\$ 4,346	\$ 4,346	\$ 4,346
Calgary	5,382	5,382	5,382
Vancouver 1	2,630	2,630	2,630
Victoria	3,208	3,208	3,208
Québec	654	654	654
Vancouver 2	3,413	3,413	-
Montréal	823	-	-
Total	\$ 20,456	\$ 19,633	\$ 16,220

In assessing goodwill for impairment at December 31, 2011 and 2010, the Corporation compared the aggregate recoverable amount of the assets included in the CGUs to their respective carrying amounts. Recoverable amount has been determined based on the value in use of the CGUs using available cash flow budgets that made maximum use of observable markets for inputs and outputs. For periods beyond the budgeted period, cash flows were extrapolated using growth rates that do not exceed the long-term averages for the business. Key assumptions include a weighted average growth rate of 2% and a pre-tax discount rate of 17% for all CGUs.

The fair value for each CGU was in excess of its carrying amount. The excess ranged from 10% to 321% of the carrying value of the applicable CGU. Based on sensitivity analysis, no reasonably possible change in assumptions would cause the carrying amount of any CGU to exceed its recoverable amount. In all the CGUs the total recoverable amount exceeded the carrying amount by \$77,375 at December 31, 2011.

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

9 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	-	4,317	4,317
Repayment of debt	-	(8,985)	(8,985)
Closing Balance at December 31, 2011	4,000	2,095	6,095
Current portion of long-term debt	-	-	-
Non-current portion of long-term debt	4,000	2,095	6,095
	\$ 4,000	\$ 2,095	\$ 6,095

⁽¹⁾ Bankers' Acceptances bear interest at 30 day BA rates plus 2.5% depending on certain financial ratios, renewable monthly until June 30, 2013. As at December 31, 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, 2013. As at December 31, 2011, the interest rate was 4.0%.

The Corporation has a revolving credit facility of up to \$40,000 of which \$6,345 is drawn (including letters of credit totaling \$250 per note 13(a)) as at December 31, 2011. The agreement is for a two-year committed facility maturing in 2012 which was extended for a third year through June 30, 2013. 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

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

10 Financial charges

	2011	2010
Interest on long-term debt	\$ 274	\$ 436
Other charges, net	138	207
	\$ 412	\$ 643

11 Unamortized lease inducements

The Corporation entered into a long-term lease that included certain lease inducements consisting of a tenant allowance and a rent-free period. Tenant allowances are deferred 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.

	2011	2010
Lease inducements received	\$ 699	\$ 699
Accumulated amortization, net	(133)	(88)
	566	611
Less current portion, included in accrued liabilities	(54)	(45)
	\$ 512	\$ 566

12 Income taxes

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

	2011	2010
Earnings before income taxes	\$ 10,888	\$ 7,116
Non-deductible expenses	293	375
Income subject to tax	11,181	7,491
Income tax at statutory rate of 26.9% (2009 - 28.7%)	3,003	2,152
Impact of substantively enacted rates and other	(43)	158
Tax on income of the Fund allocated to unitholders	-	(2,147)
Income tax expense (recovery)	\$ 2,960	\$ 163

Deferred income tax liabilities are attributable to the following items:

	2011	2010
Linen in service	\$ (2,001)	\$ (620)
Accounts payable and accrued liabilities	534	535
Property, plant & equipment	(1,083)	(1,095)
Intangible assets & Goodwill	(2,137)	(2,506)
Offering costs & other	91	240
Deferred income tax liability	\$ (4,596)	\$ (3,446)

The net deferred tax liability of \$4,596 (2010 - \$3,446) is comprised of current deferred tax assets and liabilities of \$267 (2010 - \$274) and \$2,496 (2010 - \$834), respectively, and long-term deferred tax assets and liabilities of \$440 (2010 - \$376) and \$2,807 (2010 - \$3,262), respectively. The amount of goodwill deductible for tax purposes is \$8,044 (2010 - \$7,275).

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

13 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:

2012	\$	5,415
2013		2,937
2014		2,468
2015		1,988
2016		1,594
Subsequent		1,733
	\$	16,135

(ii) Linen purchase commitments

At December 31, 2011, the Corporation was committed to linen expenditure obligations in the amount of \$1,672 (2010 – \$2,206).

(iii) Capital equipment commitments

At December 31, 2011, the Corporation was committed to capital expenditure obligations in the amount of \$2,135 (2010 – \$611).

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

14 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

	December 31, 2011		December 31, 2010	
	Shares (#)	Capital (\$)	Shares (#)	Capital (\$)
Common shares				
Balance, beginning of year	-	\$ -	-	\$ -
Issued on Conversion	7,004,973	71,400	-	-
Issued under LTIP	1,392	-	-	-
	7,006,365	\$ 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 year	-	(306)	-	(767)
	-	\$ (1,907)	-	\$ (1,601)
Total Share Capital	7,006,365	\$ 69,493	7,004,973	\$ 69,799

Pursuant to the Conversion, trust units held by Unitholders were transferred to the Corporation in consideration for Common shares on the basis of one Common share for each trust 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

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

c) Weighted average number of shares outstanding

	2011	2010
Balance, beginning of year	7,006,365	7,004,973
Weighted average unvested shares purchased for LTIP	(87,410)	(99,604)
Basic weighted average shares for the year	6,918,955	6,905,369
Basic weighted average shares for the year	6,918,955	6,905,369
Dilutive effect of LTIP shares	61,534	87,031
Fully diluted weighted average shares for the year	6,980,489	6,992,400

15 Long-Term Incentive Plan

A trust was formed to hold equity grants issued under the terms of the LTIP on behalf of the participants (the "LTIP Trust"). The Corporation is neither a trustee nor a direct participant of the LTIP; however, under certain circumstances the Corporation may be the beneficiary of forfeited Common shares held by the LTIP Trust. Consequently, the LTIP Trust is considered a variable interest entity for accounting purposes and the Corporation has consolidated the LTIP Trust in accordance with IFRS 2, *Share-based Payment*. Compensation expense is recorded by the Corporation in the period earned. Dividends paid by the Corporation with respect to unvested Common shares held by the LTIP Trust are paid to LTIP participants. Unvested Common shares held by the LTIP Trust are shown as a reduction of shareholders' equity.

	2011		2010	
	Unvested	Vested	Unvested	Vested
Balance, beginning of year	114,074	115,780	69,692	72,739
Granted during year	11,566	1,557	62,945	24,478
Vested during year	(51,129)	51,129	(18,563)	18,563
Balance, end of year	74,511	168,466	114,074	115,780

The cost of the 74,511 unvested Common shares held in trust by the LTIP at December 31, 2011 (2010 - 114,074) was \$1,252 (2010 - \$1,601).

The basic net earnings per unit calculation excludes the unvested Common shares held by the LTIP Trust.

16 Dividends to Shareholders

During the year ended December 31, 2011, the Corporation declared total dividends to Shareholders of \$7,706 or \$1.10 per share (2010 - \$7,706 or \$1.10 per share).

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.

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

17 Net change in non-cash working capital items

	2011	2010
Accounts receivable	\$ (1,002)	\$ (2,437)
Linen in service	(309)	(91)
Prepaid expenses and deposits	(620)	(191)
Accounts payable and accrued liabilities	1,316	3,268
Income taxes payable	1,857	-
	<u>\$ 1,242</u>	<u>\$ 549</u>

18 Financial Instruments

a) Fair value

The Corporation's financial instruments at December 31, 2011 consist of accounts receivable, accounts payable and accrued liabilities and long-term debt. The carrying value of accounts receivable, accounts payable and accrued liabilities, and dividend payable to Shareholders approximate fair value due to the immediate or short-term maturity of these financial instruments. The fair value of the Corporation's interest-bearing debt approximates the respective carrying amount due to the floating rate nature of the debt.

b) Financial risk management

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

c) Price risk

(i) 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 Corporation 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 Corporation will enter into foreign exchange forward contracts if considered prudent to mitigate this risk. At December 31, 2011, no foreign exchange forward option contracts were outstanding.

(ii) Interest rate risk

The Corporation is subject to interest rate risk as its credit facility bears interest at rates that depend on certain financial ratios of the Corporation and vary in accordance with market interest rates. Based on the outstanding balance on the Corporation's revolving credit facility, a 1% increase in the Canadian prime rate would result in an additional \$61 in annual interest expense.

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

(iii) Other price risk

The Corporation'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.

d) Credit risk

The Corporation's financial assets that are exposed to credit risk consist of accounts receivable. The Corporation, in the normal course of business, is exposed to credit risk from its customers. The allowance for doubtful accounts and past due receivables are reviewed by management at each balance sheet reporting date. Any amounts greater than 60 days are considered overdue and all impaired amounts have been fully allowed for as at December 31, 2011.

The Corporation updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of accounts receivable balances of each customer taking into account historic collection trends, the contractual relationship with the customer and the nature of the customer which in many cases is a publicly funded health care entity.

Management believes that the risks associated with concentrations of credit risk with respect to accounts receivable are limited due to the nature of the customers and the generally short payment terms.

The aging of the Corporation's receivables and related allowance for doubtful accounts are:

December 31, 2011	Gross	Allowance	Net
Current	\$ 9,088	\$ -	\$ 9,088
31-60 days	4,935	-	4,935
Greater than 60 days	927	48	879
	\$ 14,950	\$ 48	\$ 14,902

December 31, 2010	Gross	Allowance	Net
Current	\$ 10,272	\$ -	\$ 10,272
31-60 days	2,660	-	2,660
Greater than 60 days	462	42	420
	\$ 13,394	\$ 42	\$ 13,352

While the Corporation evaluates a customer's credit worthiness before credit is extended, provisions for potential credit losses are also maintained. The change in allowance for doubtful accounts was as follows:

	2011	2010
Balance, beginning of year	\$ 42	\$ 42
Adjustments made during the year	87	17
Write-offs	(81)	(17)
Balance, end of year	\$ 48	\$ 42

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

Liquidity risk

The Corporation's accounts payable and dividend payable are due within one year.

The Corporation has a credit facility with a maturity date of June 30, 2013 (note 9). The degree to which the Corporation 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 Corporation 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 Corporation 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.

19 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 measures used by the Corporation to monitor its financial leverage are the ratios of Funded Debt to EBITDA and Fixed Charge Coverage. EBITDA is an additional GAAP measure that has a standardized meaning prescribed by IFRS. This measure, as defined, has been presented in the manner in which the chief operating decision maker assesses performance.

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

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

	December 31, 2011	December 31, 2010
	2011	2010
Long-term debt, including current portion	\$ 6,095	\$ 10,763
Issued and outstanding letters of credit	250	250
Funded debt	6,345	11,013
Net earnings for the trailing twelve months	7,928	6,953
Add:		
Income tax expense	2,960	163
Financial charges	412	643
Depreciation of property, plant and equipment	5,938	6,391
Amortization of intangible assets	2,628	2,540
Loss on disposal of property, plant and equipment	80	187
EBITDA	\$ 19,946	\$ 16,877
Funded debt to EBITDA	0.32x	0.65x

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

	December 31, 2011	December 31, 2010
	2011	2010
EBITDA	\$ 19,946	\$ 16,877
Financial charges	412	643
Dividends to shareholders	7,706	7,706
	\$ 8,118	\$ 8,349
Fixed charge coverage	2.5x	2.0x

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

20 Related party transactions

The Corporation transacts with key individuals from management and with the Board who have authority and responsibility to plan, direct and control the activities of the Corporation. The nature of these dealings were in the form of payments for services rendered in their capacity as Directors (retainers and meeting fees, including share-based payments) and as employees of the Corporation (salaries, benefits, short-term bonuses and share-based payments).

Key management personnel are defined as the executive officers of the Corporation including the President and Chief Executive Officer, Senior Vice-President and General Manager, Vice-President and Chief Financial Officer and two employees acting in the capacity of Vice-President and General Manager.

During 2011 and 2010, remuneration to directors and key management personnel was as follows:

	2011	2010
Salaries and retainer fees	\$ 1,593	\$ 1,507
Short-term bonus incentives	585	543
Post-employment benefits	46	43
Unit-based payments	1,497	1,220
	<u>\$ 3,721</u>	<u>\$ 3,313</u>

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by a Director primarily relating to acquisitions. The amounts charged are included as salaries and retainer fees and are recorded at their exchange amounts. For the year ended December 31, 2011, the Corporation incurred such fees totaling \$138 (2010 – \$138).

21 Expense by nature

	2011	2010
Wages and benefits	\$ 58,194	\$ 51,263
Linen	12,031	10,603
Utilities	8,688	8,361
Delivery	4,900	3,993
Repairs and maintenance	3,843	3,416
Occupancy costs	3,915	3,868
Materials and supplies	5,103	5,373
Other expenses	239	297
	<u>\$ 96,913</u>	<u>\$ 87,174</u>

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

22 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 5) 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 year ended December 31, 2011, the Corporation has recorded revenue of \$54,743 (2010 - \$52,887) from these three major customers, representing 47% (2010 - 51%) of total revenue.

	2011		2010	
Healthcare	\$ 80,145	68.6%	\$ 71,455	68.7%
Hospitality	36,714	31.4%	32,596	31.3%
	\$ 116,859	100.0%	\$ 104,051	100%

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

23 Transition to IFRS

These audited Consolidated Financial Statements have been prepared in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards* 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 for 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 December 31, 2010 and Consolidated Statements of Earnings, Deficit and Comprehensive Income for the year ended December 31, 2010.

The effect of the Corporation's transition to IFRS, described in note 1, is summarized in this note as follows:

- a) Transition elections;
- b) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS; and,
- c) Explanatory notes.

a) Transition elections

Set forth below are the IFRS 1 applicable exemptions applied in the conversion from Canadian GAAP to IFRS.

- i) *Business combinations*: IFRS 1 provides the option not to apply IFRS 3, Business Combinations, retrospectively to past business combinations that occurred before the transition date or an alternate designated date. The Corporation elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to January 1, 2010. As such, Canadian GAAP balances relating to business combinations entered into before January 1, 2010, have been carried forward without adjustment.
- ii) *Share-based payments*: on first time adoption of IFRS the requirements of IFRS 2, *Share-based Payment*, apply to all grants of equity settled transactions made after November 7, 2002 that have not yet vested at the transition date. A company may also choose to apply IFRS 2 to any equity instruments that were granted before November 7, 2002, or that were granted after that date, and vested before the date of transition, but only if the company has previously disclosed the fair value of the instrument, determined at the measurement date. In accordance with IFRS 1, the Corporation has elected to not to apply IFRS 2 to any equity instruments that were granted before November 7, 2002 or that were granted after November 7, 2002 and vested before the date of transition. As a result, no adjustments were required on transition.

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

b) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

Opening Consolidated Balance Sheet

As at January 1, 2010

	Previous GAAP	IFRS Adjustments			IFRS
		Prepaid Expenses & Deposits (a)	Acquisition Adjustments (b)	Deferred Taxes (c)	
ASSETS					
Current assets					
Accounts receivable	\$ 9,451	\$ -	\$ -	\$ -	\$ 9,451
Linen in service	7,305	(56)	-	-	7,249
Prepaid expenses and deposits	1,213	(233)	(373)	-	607
Deferred income taxes	449	-	-	(449)	-
	18,418	(289)	(373)	(449)	17,307
Deferred income taxes	-	-	-	449	449
Property, plant and equipment	33,583	229	-	-	33,812
Intangible assets	14,595	-	-	-	14,595
Goodwill	16,220	-	-	-	16,220
	\$ 82,816	\$ (60)	\$ (373)	\$ -	\$ 82,383
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	\$ 9,880	\$ -	\$ -	\$ -	\$ 9,880
Distribution payable to unitholders	642	-	-	-	642
	10,522	-	-	-	10,522
Long-term debt	4,043	-	-	-	4,043
Unamortized lease inducements	611	-	-	-	611
Deferred income taxes	3,847	-	-	(134)	3,713
	19,023	-	-	(134)	18,889
UNITHOLDERS' EQUITY					
Equity capital	70,566	-	-	-	70,566
Contributed surplus	572	-	-	-	572
Deficit	(7,310)	(60)	(373)	134	(7,609)
Accumulated other comprehensive loss	(35)	-	-	-	(35)
	63,793	(60)	(373)	134	63,494
	\$ 82,816	\$ (60)	\$ (373)	\$ -	\$ 82,383

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

Consolidated Statement of Financial Position

As at December 31, 2010

	Previous GAAP	IFRS Adjustments				IFRS
		Prepaid Expenses & Deposits (i)	Acquisition Adjustments (ii)	Deferred Taxes (iii)	PPE Impact (i)	
ASSETS						
Current assets						
Accounts receivable	\$ 13,352	\$ -	\$ -	\$ -	\$ -	\$ 13,352
Linen in service	7,933	(93)	-	-	-	7,840
Prepaid expenses and deposits	1,277	(479)	-	-	-	798
	22,562	(572)	-	-	-	21,990
Restricted escrow funds	250	-	(250)	-	-	-
Property, plant and equipment	34,070	512	-	-	(725)	33,857
Intangible assets	15,199	-	-	-	-	15,199
Goodwill	20,048	-	(415)	-	-	19,633
	\$ 92,129	\$ (60)	\$ (665)	\$ -	\$ (725)	\$ 90,679
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities	\$ 13,326	\$ -	\$ -	\$ -	\$ -	\$ 13,326
Deferred income taxes	98	-	-	(98)	-	-
	13,424	-	-	(98)	-	13,326
Long-term debt	10,763	-	-	-	-	10,763
Unamortized lease inducements	566	-	-	-	-	566
Deferred income taxes	3,667	-	-	(221)	-	3,446
	28,420	-	-	(319)	-	28,101
UNITHOLDERS' EQUITY						
Equity capital	69,799	-	-	-	-	69,799
Contributed surplus	1,141	-	-	-	-	1,141
Deficit	(7,231)	(60)	(665)	319	(725)	(8,362)
	63,709	(60)	(665)	319	(725)	62,578
	\$ 92,129	\$ (60)	\$ (665)	\$ -	\$ (725)	\$ 90,679

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

Consolidated Statement of Earnings, Deficit and Comprehensive Income

Year Ended December 31, 2010

	Previous GAAP	IFRS Adjustments			IFRS
		Prepaid Expenses & Deposits (i)	Acquisition Adjustments (ii)	PPE Impact (i)	
Revenue	\$ 104,051	\$ -	\$ -	\$ -	\$ 104,051
Expenses					
Wages and benefits	47,848	-	-	-	47,848
Linen	10,603	-	-	-	10,603
Utilities	8,361	-	-	-	8,361
Delivery	3,993	-	-	-	3,993
Occupancy costs	3,762	-	-	-	3,762
Materials and supplies	3,492	-	-	-	3,492
Repairs and maintenance	3,416	-	-	-	3,416
Corporate	5,406	-	293	-	5,699
	86,881	-	293	-	87,174
Earnings before the undernoted	17,170	-	(293)	-	16,877
Other expenses					
Depreciation of property, plant and equipment	5,666	-	-	725	6,391
Amortization of intangible assets	2,540	-	-	-	2,540
Financial charges	643	-	-	-	643
Loss on disposal of property, plant and equipment	187	-	-	-	187
	9,036	-	-	725	9,761
Earnings before income taxes	8,134	-	(293)	(725)	7,116
Income tax expense (recovery)	349	-	(54)	(132)	163
Net earnings	7,785	-	(239)	(593)	6,953
Deficit, beginning of year	(7,310)	(41)	(258)	-	(7,609)
Distributions to unitholders	(7,706)	-	-	-	(7,706)
Deficit, end of year	\$ (7,231)	\$ (41)	\$ (497)	\$ (593)	\$ (8,362)
Net earnings per share:					
Basic	\$ 1.13				\$ 1.01
Diluted	\$ 1.11				\$ 0.99
Weighted average number of shares outstanding:					
Basic	6,905,369				6,905,369
Diluted	6,992,400				6,992,400

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

c) Explanatory notes

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.

- i) 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.

- ii) 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 and/or consulting fees.

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 5(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.

- iii) 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.
- iv) Other than the recognition of the restricted escrow funds as a contingent payment related as goodwill as described in note 5(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.

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2011 and 2010)

24 Subsequent Events

The Corporation's Board of Directors declared an eligible dividend of \$0.09167 per Common share of the Corporation payable on each of February 15, March 15 and April 13 to Shareholders of record on January 31, February 29, and March 31, respectively.