K-BRO LINEN INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED

MARCH 31, 2010 and 2009

103, 15023 - 123 Avenue, Edmonton, Alberta, Canada T5V 1J7
Phone 780-453-5218 Fax 780-455-6676
www.k-brolinen.com

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

May 4, 2010

The following Management's Discussion and Analysis ("MD&A") is supplemental to, and should be read in conjunction with, the unaudited consolidated financial statements of K-Bro Linen Income Fund ("the Fund") for the three months ended March 31, 2010 and the audited consolidated financial statements and MD&A for the year ended December 31, 2009. These financial statements and other documents filed with regulatory authorities can be found on SEDAR at www.sedar.com. The Fund's financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Fund's reporting currency is the Canadian dollar. The Fund and its subsidiary K-Bro Linen Systems Inc. will collectively be referred to as "K-Bro" in this MD&A.

Management is responsible for the information contained in this MD&A and its consistency with information presented to the Audit Committee and Board of Trustees. All information in this document has been reviewed and approved by the Audit Committee and Board of Trustees. This review was performed by management with information available as of May 4, 2010.

In the interest of providing unitholders and potential investors of K-Bro with information regarding future plans and operations, this MD&A contains forward-looking information that represents internal expectations, estimates or beliefs concerning, among other things, future activities or future operating results and various components thereof. The use of any of the words "anticipate", "continue", "expect", "may", "will", "project", "should", "believe", and similar expressions suggesting future outcomes or events are intended to identify forward-looking information. Statements regarding such forward-looking information reflect management's current beliefs and are based on information currently available to management.

These statements are not guarantees of future performance and are based on management's estimates and assumptions that are subject to risks and uncertainties, which could cause K-Bro's actual performance and financial results in future periods to differ materially from the forward-looking information contained in this MD&A. These risks and uncertainties include, among other things, (i) risks associated with acquisitions, including the possibility of undisclosed material liabilities; (ii) K-Bro's competitive environment; (iii) utility and labour costs; (iv) K-Bro's dependence on long-term contracts with the associated renewal risk, (v) increased capital expenditure requirements; (vi) reliance on key personnel; and (vii) the availability of future financing. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information include: (i) volumes and pricing assumptions; (ii) utility costs; (iii) expected impact of labour cost initiatives; and (iv) the level of capital expenditures. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements regarding forward-looking information included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A.

All forward-looking information in this MD&A is qualified by these cautionary statements. Forward-looking information in this MD&A is presented only as of the date made. Except as required by law, K-Bro does not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

This MD&A also makes reference to certain non-GAAP measures to assist in assessing the Fund's financial performance. Non-GAAP measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Please see "Non-GAAP Measures" for further discussion.

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INTRODUCTION

Core Business

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 is the largest owner and operator of laundry and linen processing facilities in Canada. K-Bro provides a comprehensive range of general linen and operating room linen processing, management and distribution services to healthcare institutions, hotels and other commercial accounts. K-Bro currently has seven processing facilities in six Canadian cities: Toronto, Edmonton, Calgary, Vancouver, Victoria and Quebec City.

Industry and Market

K-Bro provides laundry and linen services to Canadian healthcare, hospitality and other commercial customers. Typical services offered by K-Bro include the processing, management and distribution of general and operating room linens, including sheets, blankets, towels, surgical gowns and drapes and other linen. Other types of processors in K-Bro's industry in Canada include independent privately-owned facilities (i.e. typically small, single facility companies), public sector central laundries and public and private sector on-premise laundries (known as “OPLs”). Participants in other sectors of the laundry and linen services industry, such as uniform rental companies (which own and launder uniforms worn by their customers' employees) and facilities management companies (which manage public sector central laundries and OPLs), typically do not offer services that significantly overlap with those offered by K-Bro.

Management believes that the healthcare and hospitality sectors of the laundry and linen services industry represent a stable base of annual recurring business with opportunities for growth as additional healthcare beds and funds are made available to meet the needs of an aging demographic.

Industry Characteristics and Trends

Management believes that the industry exhibits the following characteristics and trends:

Stable Industry with Moderate Cyclicality – As evidenced by the stability in the number of approved hospital beds in the healthcare system and hotel rooms in the hospitality industry. Service relationships are typically formalized through contracts in the healthcare sector that are typically long term (from seven to ten years), while contracts in the hospitality sector typically range from two to five years.

Outsourcing and Privatization – There are often advantages to healthcare institutions in outsourcing the processing of healthcare linen to private sector laundry companies such as K-Bro because of the economies of scale and significant management expertise that can be provided on a more comprehensive and cost-effective basis than customers can achieve in operating their own laundry facilities.

Fragmentation – Most Canadian cities have at least one and sometimes several private sector competitors operating in the healthcare and hospitality sectors of the laundry and linen services industry. Management believes that the presence of these operators provides acquisition and consolidation opportunities for larger industry participants with the financial means to complete acquisitions.

Customers and Product Mix

K-Bro's customers include some of the largest healthcare and hospitality institutions in Canada. Healthcare customers include acute care hospitals and long-term care facilities. Most of K-Bro's hospitality customers (typically 250+ rooms) generate between 500,000 and 3,000,000 pounds of linen per year. Most healthcare customers generate between 500,000 pounds of linen per year for a hospital and up to 20,000,000 pounds of linen per year for a healthcare region.

SUMMARY OF RESULTS AND KEY EVENTS

Acquisition of Business and Assets of Second Plant in Greater Vancouver

On January 29, 2010, the Fund completed the acquisition of the laundry business, linen, certain working capital and equipment of a plant located in greater Vancouver, British Columbia. 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 29, 2010. The allocation was based on management's best estimate of the fair value of net assets acquired. The purchase price allocations are preliminary and are subject to change once the final valuations are completed and the final determination of the costs related to the acquisition have been made. The acquisition was funded through the Fund's revolving credit facility.

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

	$
Consideration	
Purchase price including acquisition costs	12,551,753
Less	
Restricted escrow funds	(250,000)
Net cash consideration	12,301,753
Net assets acquired	
Net working capital	1,227,661
Linen	500,000
Property, plant and equipment	3,906,100
Intangible assets	2,900,000
Goodwill	3,767,992
	12,301,753

Of the cash consideration payable to the vendor, $250,000 was deposited into escrow with an escrow agent. The full amount of the funds held in escrow will be released to the vendor in 2011 upon the determination that certain representations and warranties are met in the twelve-month period subsequent to the acquisition. Goodwill will be correspondingly increased by the amount released.

The acquired business consists of Vancouver healthcare institutions and hospitality customers in both the greater Vancouver area and Whistler, British Columbia. K-Bro acquired all assets of the owner's Vancouver linen business including the processing plant that operates from a leased facility.

Annual revenues from the acquired business were $14.4 million in its most recent fiscal year ended June 30, 2009. Management estimates that adjusted EBITDA was approximately $1.7 million for that fiscal year. These operating results, combined with potential synergies, results in an acquisition that management believes will be immediately accretive to the Fund.

Revolving Credit Facility Increased

In March, 2010, K-Bro Linen Systems Inc. secured an additional $10,000,000 of credit under its revolving credit facility that will now have a limit of $40,000,000. The term of the agreement was also extended to June 30, 2012 and the working capital covenant was removed.

Sustained Revenue and EBITDA Growth in 2010

Revenue increased in the first quarter of 2010 to $23.9 million or by 11.3% compared to the first quarter of 2009. This growth in the quarter was substantially the result of the plant acquisition in greater Vancouver on January 29, 2010 (see above) as revenue was otherwise flat as a result of a low inflation rate that impacts price adjustments, negligible growth in the existing hospitality sector, as well as cost cutting initiatives by hospitals as they face budget pressures from deficit strapped provincial governments. See further discussion below under *Market Activities and Opportunities*.

EBITDA (see *Non-GAAP Measures*) increased in the first quarter of 2010 to $3.9 million from $3.5 million in the first quarter of 2009. This was an increase of 11.9%. The EBITDA margin has increased to 16.3% in Q1 2010 versus 16.2% in Q1 2009. This is primarily the result of the positive contribution from the acquisition of the second plant in Vancouver as well as a further positive impact of labour initiatives realized.

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Labour Cost Improvements Achieved

Labour costs for plant staff as a percentage of revenue decreased in the first quarter from 45.4% in 2009 to 45.0% in 2010. This decrease in labour costs is the continuing impact of a newer, more efficient Calgary plant and the impact from utilizing the federal government's Temporary Foreign Worker Program.

Market Activities and Opportunities

Activities of significance in K-Bro's markets in 2010 have included:

> *British Columbia* – In December, 2009 a Request for Proposal was issued by the hospital authority with respect to the laundry services provided by the Tilbury Regional Hospital Laundry to Lower Mainland hospitals. K-Bro responded to this request and is awaiting the outcome. Given the competitive nature of the RFP process, there can be no assurance that K-Bro's bid will be successful for this volume.
>
> *Alberta* – Processing commenced in Q4, 2009 for Alberta Hospital in Edmonton which is part of Alberta Health Services. This volume was previously processed by the hospital using an on premise laundry. In the February, 2010 provincial budget, Alberta Health Services received a 6% increase in its operating grant, a one time provision to eliminate its accumulated deficit and a budget of $2.5 billion over three years to support capital projects. It remains to be seen as to how this may impact a previous announcement that Alberta Health Services is seeking "where applicable, opportunities to improve effectiveness and efficiencies consistent with the Board's goal of accessibility, quality and sustainability in order to achieve further savings in 2010/2011 and beyond." K-Bro's Edmonton contracts with Alberta Health Services expire December 31, 2010 and discussions in this regard have commenced with Alberta Health Services.

Ontario and Quebec – There was normal market activity in terms of responses to RFP's and discussions with customers. No significant wins or losses.

K-Bro currently has several proposals out and has entered into discussions with potential new healthcare and hospitality customers. In addition, K-Bro continues to seek potential acquisition candidates. Neither the timing nor the degree of likelihood of success of any of these proposals or potential acquisitions can be stated with any degree of accuracy at this time.

Effects of Economic Volatility and Uncertainty

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

- Approximately 72% of its revenues are from large publicly funded healthcare customers.
- K-Bro's $40 million line of credit is with a major Canadian bank and has a term to June 30, 2012 with an annual option to renew for an additional year. No events of default have occurred and at March 31, 2010, K-Bro had unutilized borrowing capacity of $23.8 million or 60% of the line available.
- K-Bro's payout ratio for the quarter was 54.7% and for the quarter ended March 31, 2009 was 61.4%. The undistributed portion of cashflow provides K-Bro with cashflow from operations to fund growth or cushion it against business downturns.
- K-Bro has fixed a portion of certain variable cost components such as natural gas, electricity and interest rates through forward contracts or swaps. In Q4, 2009, K-Bro entered into further natural gas and electricity hedges for a three year term commencing upon expiration in February, 2010 of pre-existing hedges.

Taxation

On March 12, 2009, Bill C-10, Budget Implementation Act, 2009, which further modifies the rules applicable to certain publicly traded income trusts in Canada, received Royal Assent. In particular, Bill C-10 provides rules to facilitate the conversion of income trusts into corporations on a tax-deferred basis. These rules are being evaluated and will be utilized in evaluating the options available to K-Bro in light of the impact of Bill C-52 Budget Implementation Act 2007, which contained legislation creating a new tax on distributions from publicly traded income trusts in Canada that was enacted by the Canadian Federal Government. Subsequent enacted tax rate changes have reduced the tax rate applicable to distributions from Canadian public income trusts. The new tax is not expected to apply to the Fund until 2011 as a transition period applies to publicly traded trusts that existed prior to November 1, 2006. There was no future income tax expense or recovery that needed to be recorded by the Fund as a result of this legislation as the Fund has no taxable temporary differences that would exist in 2011. Future income taxes are already recorded by the Fund's wholly-owned subsidiary K-Bro Linen Systems Inc.

KEY PERFORMANCE DRIVERS

K-Bro's key performance drivers focus on growth, profitability, stability and cost containment in order to maintain distributions and maximize unitholder value. The following outlines our level of success in each of these areas:

Category	Specific Indicator	Q1 2010	Q1 2009
Growth (% change from comparative period)	Revenue	11.3%	9.3%
	EBITDA[1]	11.9%	60.7%
	Distributable cash	2.6%	76.3%
Profitability (actual for the period)	EBITDA	$3,908	$3,492
	EBITDA margin	16.3%	16.2%
	Net income	$1,772	$1,591
Stability	Payout ratio	54.7%	59.2%
	Distributions (annualized rate per Unit)	$1.10	$1.10
	Debt to total Capitalization	20.0%	10.2%
	Unutilized line of credit	$23,838	$22,540
Cost containment (as a % of revenue)	Wages and benefits	45.0%	45.4%
	Utilities	8.4%	7.9%
	Total operating expenses	83.7%	83.8%

Notes: 1. EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, gain or loss on disposals, financial charges and amortization). See *Non-GAAP Measures*.

OUTLOOK

Management believes that the remainder of 2010 will show an increase in revenue and EBITDA compared to 2009 but with a moderation of historical "same plant" growth. This belief is predicated on:

- The acquisition completed in January, 2010 (see *Summary of Results and Key Events*);
- The results from the new Calgary plant, which opened in 2008 with increased volumes and operating efficiencies, are fully reflected in the 2009 results, thereby tempering future gains;
- The organic growth from existing customers may moderate as cost savings initiatives are implemented by them;
- The positive impact of the labour initiatives over the last two years will continue but further margin improvements will be minimal; and
- The low rate of inflation will be of some benefit in moderating certain expenses but will also result in lower price adjustments for customers with contracts subject to an annual consumer price index "CPI" adjustment factor.

In 2010 there will be both opportunities and risks that will be confronted. Management believes that these include:

- A recovering economy that will potentially have positive impacts on our hospitality business.
- Provincial governments in a deficit position are once again putting healthcare costs under a microscope and are potentially seeing the advantage of further outsourcing of non-core activities such as laundry services. This has already been seen in Alberta and British Columbia (see *Market Activities and Opportunities*). Conversely, all healthcare costs and processes are being examined and some changes could negatively impact K-Bro.
- The initiatives in BC and Ontario to implement a harmonized sales tax ("HST") on July 1, 2010 will lower the input cost of some materials and services to the benefit of K-Bro by an as yet undetermined amount.
- A CPI that remains very low which is potentially positive from a labor, materials and interest rate perspective but, which is negative from a revenue perspective for those customer contracts encompassing a price adjustment based on CPI.
- A relatively high unemployment rate which is positive from a labor supply perspective but negative if access to such programs as the Temporary Foreign Worker Program is reduced.
- Natural gas prices that could move higher if current prices prove unsustainable as drilling is curtailed and supplies decrease. Conversely, they could move lower if supplies remain high. K-Bro has managed this risk through further hedging of these costs which could be at prices higher than those currently being experienced.
- The potential long-term impact of the Federal Government's implementation of its income tax changes (see *Taxation*) will continue to unfold as capital markets, investors and the government react to the changes. The Fund, with the assistance of its professional advisers, continues to monitor the possible long-term impact they will have on the Fund and its investors and what steps to take in respect of the Fund. This legislation is not expected to have an immediate impact on the Fund's tax treatment or distribution policy or the tax treatment of distributions to investors in 2010. There can be no assurance that the Fund will be able to undertake any measures to minimize the long-term impact; however, based on current knowledge and belief, it appears that conversion to a dividend paying corporation on or before December 31, 2010 may be a suitable alternative structure. The cost of such a conversion may range from $0.5 million to $1.0 million. The Fund expects that a definitive decision regarding the conversion will be made and communicated before the end of Q3, 2010. The post conversion dividend policy will be determined by the Board giving full consideration to K-Bro's business outlook, payout ratio, capital requirements and market conditions.

Given this outlook, combined with an expected continuance of a conservative payout ratio, management believes that the current level of cash distributions is sustainable for the Fund in its current structure for 2010.

RESULTS OF OPERATIONS

(all amounts in this section in $000's except per unit amounts and percentages)

Overall Performance

The first quarter of 2010 saw revenue increase by $2,439 or 11.3% over the first quarter of 2009. See the previous discussion under *Summary of Results and Key Events* and the *Revenues* section below for an analysis of this change. Operating costs decreased to 83.7% of revenue in the current quarter compared to 83.8% in Q1 2009. The causes of this are discussed later under *Operating Expenses*. As a result, EBITDA increased in the current quarter by $416 (11.9%) over the first quarter of 2009.

Selected Annual and Quarterly (Unaudited) Financial Information

The following table provides certain selected consolidated financial and operating data prepared by K-Bro management for the periods indicated:

Fiscal year	2010	2009					2008[2]		
	Q1	Total	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	23,932	87,533	21,635	22,659	21,746	21,493	21,547	22,063	21,840
Operating expenses	20,024	71,987	17,830	18,521	17,635	18,001	18,223	18,466	18,539
EBITDA[1]	3,908	15,546	3,805	4,138	4,111	3,492	3,324	3,597	3,301
EBITDA as a % of revenue	16.3%	17.8%	17.6%	18.3%	18.9%	16.2%	15.4%	16.3%	15.1%
Amortization	2,033	7,504	1,856	1,885	1,871	1,892	1,950	1,903	1,896
Financial charges	127	311	96	60	64	91	142	148	140
Loss on disposal of equipment	-	54	50	1	-	3	49	-	458
Write-off of new plant start-up costs	-	-	-	-	-	-	-	-	27
Earnings before income taxes	1,748	7,677	1,803	2,192	2,176	1,506	1,183	1,546	780
Income tax recovery	24	125	145	(97)	(8)	85	202	64	231
Net earnings	1,772	7,802	1,948	2,095	2,168	1,591	1,385	1,610	1,011
Net earnings as a % of revenue	7.4%	8.9%	9.0%	9.2%	10.0%	7.4%	6.4%	7.3%	4.6%
Basic earnings per Unit	0.26	1.12	0.28	0.30	0.31	0.23	0.21	0.23	0.14
Diluted earnings per Unit	0.25	1.11	0.27	0.30	0.31	0.23	0.21	0.23	0.14
Total assets	95,103	82,816	82,816	83,565	84,639	86,344	85,793	88,241	89,398
Total long-term financial liabilities	20,145	8,500	8,500	9,676	11,263	11,536	8,636	10,825	13,718
Funds provided (used) by operations	3,830	11,860	3,549	5,568	3,539	(796)	5,594	5,570	470
Long-term debt, end of period	15,912	4,043	4,043	5,107	6,735	7,210	4,061	6,219	9,010
Distributions declared per unit	0.28	1.10	0.27	0.28	0.27	0.28	0.27	0.28	0.28

Notes:
1. EBITDA is defined as revenue less operating expenses as reflected in the table above (which equates to net earnings before income tax, gain or loss on disposals, financial charges and amortization). See *Non-GAAP Measures*.
2. Restated for the adoption of CICA accounting standard 3064, which requires the expensing of certain expenditures related to a pre-operating period of a facility rather than recording them as assets.

Revenues

See previous discussion under *Summary of Results and Key Event* and *Overall Performance*. Revenues by sector consist of:

Fiscal year	2010	2009					2008		
	Q1	Total	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sector									
Healthcare	17,137	66,846	16,662	16,524	16,723	16,937	16,782	16,226	16,448
Hospitality	6,795	20,687	4,973	6,135	5,023	4,556	4,765	5,837	5,392
Total	23,932	87,533	21,635	21,659	21,746	21,493	21,547	22,063	21,840

Operating Expenses

Wages and benefits - The major cause of the quarterly improvement in labour costs as a percentage of revenue is as outlined under *Labour Cost Improvements Achieved* in *Summary of Results and Key Events.*

Linen - Costs as a percentage of revenue have decreased for the quarter due to a higher percentage of hospitality revenue as a result of the greater Vancouver plant acquisition in January, 2010 as such hospitality customers generally own their own linen.

Utilities - Utility costs as a percentage of revenue increased from 7.9% in 2009 to 8.4% in 2010. This increased expense of $311 is primarily the result of the acquisition as well as higher electricity and water rates experienced. K-Bro has executed its strategy to utilize natural gas and electricity hedges to take advantage of the current low prices in order to lock in future variable costs where feasible.

Delivery, Repairs and maintenance and Materials and supplies – These costs as a percentage of revenue remained stable in Q1, 2010 compared to Q1, 2009.

Occupancy – Occupancy costs as a percentage of revenue increased from 3.4% in 2009 to 3.9% in 2010. This increased expense is primarily the result of the acquisition as well as landlord adjustments for property taxes and operating costs.

Corporate - Costs increased in Q1 2010 by $168 over Q1 2009. This is primarily attributable to an increase in the accrual for the Long Term Incentive Plan (see below), consulting fees associated with the IFRS conversion project and travel costs associated with the acquisition transition.

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 K-Bro's long-term incentive plan (the "LTIP"). K-Bro is neither a trustee nor a direct participant of the LTIP; however, under certain circumstances K-Bro 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 K-Bro has consolidated the LTIP Trust in accordance with the Canadian Institute of Chartered Accountants ("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 K-Bro 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. At March 31, 2010 a total of 69,692 units were unvested. LTIP expense for Q1 2010, included in Corporate expenses, was $372 (Q1 2009 - $270).

Effects of Inflation

The majority of K-Bro's customer contracts have an annual price adjustment mechanism based on a published price index such as the Consumer Price Index. To the extent that such indices are impacted by inflation, this would be reflected in K-Bro's revenues and net income. K-Bro's operating costs may be affected by general inflation but to a much greater extent are impacted by labour market conditions, textile costs in a global environment and commodity prices impacting the cost of energy.

Amortization of Property and Equipment

Amortization of property and equipment represents the expense related to the appropriate matching of certain of K-Bro's long-term assets to the estimated useful life and period of economic benefit to K-Bro of those assets. Amortization of plant and equipment for the quarter has increased from the comparable period in 2009 primarily due to the greater Vancouver plant acquisition in January, 2010 and other capital additions.

Amortization of Intangible Assets

Amortization of intangible assets represents the expense related with matching K-Bro's finite life intangible assets to the estimated useful life and period of economic benefit to K-Bro of those assets. Amortization expense in 2010 increased compared to 2009 as the acquisition of the second plant in Vancouver was completed on January 29, 2010. As well, software expenses are now included as an intangible asset and additions have increased the amortization charge.

Financial Charges

Financial charges in the current quarter increased by $36 over 2009 as a result of an increased long-term debt balance offset somewhat by lower market interest rates (see *Liquidity and Capital Resources – Financing Activities*).

Income Tax Recovery

Income tax recovery includes current and future income taxes based on taxable income and the temporary timing differences between the tax and accounting bases of assets and liabilities. Income tax recovery reflects the structure as an income trust whereby the Fund's unitholders bear the tax obligations with respect to distributions.

On June 12, 2007, Bill C-52 Budget Implementation Act 2007, which contained legislation creating a new 31.5 per cent tax on distributions from publicly traded income trusts in Canada, was substantively enacted by the Canadian Federal Government. Subsequent substantively enacted tax rate changes have reduced the tax rate applicable to distributions from Canadian public income trusts. The new tax is not expected to apply to the Fund until 2011 as a

transition period applies to publicly traded trusts that existed prior to November 1, 2006. There was no future income tax expense or recovery that needed to be recorded by the Fund as a result of this legislation as the Fund has no taxable temporary differences that would exist in 2011. Future income taxes are already recorded by the Fund's wholly-owned subsidiary K-Bro Linen Systems Inc.

Currently, the Fund is only taxable on amounts that are not distributed to Unitholders. Once the Fund is subject to the new rules (which is not expected to be until 2011), the Fund will be subject to income tax on its earnings regardless of whether amounts are distributed to the Unitholders or not.

LIQUIDITY AND CAPITAL RESOURCES

(all amounts in this section in $000's except per unit amounts and percentages)

Cash Provided by Operating Activities

Cash provided by operating activities was $3,830 in the first quarter of 2010, an increase of $4,626 from the funds used by operating activities in the first quarter of 2009. This $4,626 increase is attributable to an increase in cashflow from operations of $380 and a decreased working capital requirement of $4,246 in the quarter compared to the corresponding period in 2009.

The decreased working capital requirement is the result of: a smaller increase in accounts receivable resulting from the timing of receipts from major customers, an increase in accounts payable and accrued liabilities (in Q1 2009 there were large payments of accrued volume rebates) and a decrease in prepaid expenses (primarily computer software costs associated with the upgrade project that are now included in intangible assets).

Financing Activities

During the quarter ended March 31, 2010, the Fund declared distributions to unitholders at an annualized rate of $1.10 per unit for a total amount of $1,926 ($1,926 for the first quarter of 2009)

Long-term debt at March 31, 2010 was $15,912 compared with $4,043 at December 31, 2009 (see *Investing Activities* below).

The existing long-term debt of $15,912 consists of draw downs on a secured revolving, interest only, credit facility (the "Credit Facility") of up to $40,000. The Credit Facility is a two-year committed facility maturing June 30, 2012 and is extendable annually for an additional year at the lender's option. It is subject to customary terms and conditions and is also subject to the maintenance of a maximum ratio of funded debt to EBITDA of 2.75 (increased to 3.25 for the two fiscal quarters immediately following an acquisition), and minimum ratios of 1.00 for fixed charge coverage. K-Bro has incurred no events of default under the terms of its credit facility agreement.

On June 24, 2005, K-Bro entered into an interest rate swap arrangement whereby the interest rate paid on a notional amount of $4,000 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 was 3.16% as of March 31, 2010.

Investing Activities

During the current quarter, K-Bro used $222 (2009 – $133) of funds for maintenance capital expenditures and $792 (2009 – $300) of funds for strategic capital expenditures for a total cash investment in property, plant and equipment of $1,014 (2009 – $433) for the quarter. Management defines maintenance capital expenditures as additions to, or replacements of, property and equipment to maintain K-Bro's current business operations. K-Bro is progressing with its computer software upgrade that commenced in the first quarter of 2009. Total cost of software for phase one of this two phase project is estimated to be $1,000, of which $887 has been incurred to date ($208 in Q1, 2010). This investment is recorded in intangible assets but treated as a maintenance capital expenditure for purposes of calculating Distributable Cash (see *Non- GAAP Measures*).

Management estimates that ongoing annual average maintenance capital expenditures are approximately $850. The modest level of maintenance capital expenditures is due to the long life of the majority of the processing equipment.

Strategic capital expenditures are defined by management as those expenditures utilized for improvements to, and expansion of, K-Bro's property and equipment to enhance efficiencies and capacity to process incremental volumes. The strategic capital expenditures in 2010 are primarily related to the requirements of handling additional volume and gaining efficiencies.

No significant disposals of equipment were recorded in the first quarter of 2010 or 2009.

Contractual Obligations

At March 31, 2010, payments due under contractual obligations for the next five years and thereafter are as follows:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	15,912	–	15,912	–	–
Operating leases and utility commitments	18,431	4,460	8,226	3,127	2,618
Linen purchase obligations	1,729	1,729	–	–	–

The source of funds for these commitments will be from operating cash flow and the undrawn portion of the Credit Facility.

Financial Position

Capital Structure at March 31		
	2010	2009
Long-term debt	$15,912	$7,210
Unitholders' equity	63,725	63,470
Total capitalization	79,637	70,680
Debt to total capitalization	20.0%	10.2%

For the quarter ended March 31, 2010, the Fund had a payout ratio (see *Non-GAAP Measures*) of 54.7%, a debt to total capitalization of 20.0%, an unused line of credit of $23,838 and has not incurred any events of default under the terms of its credit facility agreement. Based on this, management believes that K-Bro has sufficient liquidity and is able to generate sufficient amounts of cash to meet its planned growth and has access to the equity market, if available and cost effective, to fund additional growth as acquisition opportunities arise.

DISTRIBUTIONS FOR THE PERIOD

Fiscal year		2010		2009	
Period	**Payment Date**	**Per Unit Distribution**	**Distribution Amount ($)**	**Per Unit Distribution**	**Distribution Amount ($)**
Fund Units					
January	February 15	$0.09167	$635,508	$0.09167	$635,508
February	March 15	$0.09167	$635,508	$0.09167	$635,508
March	April15	$0.09167	$635,508	$0.09167	$635,508
First Quarter		$0.27501	$1,906,524	$0.27501	$1,906,524
Exchangeable Shares					
January	February 15	$0.09167	$6,638	$0.09167	$6,638
February	March 15	$0.09167	$6,638	$0.09167	$6,638
March	April15	$0.09167	$6,638	$0.09167	$6,638
First Quarter		$0.27501	$19,914	$0.27501	$19,914
Total Distributions		**$0.27501**	**$1,926,438**	**$0.27501**	**$1,926,438**

For the quarter ended March 31, 2010, the Fund distributed $0.275 per unit compared with Distributable Cash (see *Non-GAAP Measures*) per unit of $0.48. The actual payout ratio was 57.7%.

The Fund's policy is to make distributions to unitholders of its available cash to the maximum extent possible consistent with good business practices 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 in equal amounts to the Fund unitholders and exchangeable shareholders on the last business day of each month and are paid by the 15th of the following month.

DISTRIBUTABLE CASH (see *Non-GAAP Measures)*

(all amounts in this section in $000's except per unit amounts and percentages)

The Fund's source of cash for distributions is cash provided by operating activities. Distributable cash, reconciled to cash provided by operating activities as calculated under GAAP, is presented as follows:

Fiscal year	**2010**	**2009**					**2008[1]**		
	Q1	**Total**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Per consolidated financial statements:									
Cash provided (used) by operating activities	$3,830	$11,860	$3,549	$5,568	$3,539	$(796)	$5,594	$5,570	$470
Add (deduct):									
Net changes in non-cash working capital items[2]	(63)	3,318	146	(1,505)	494	4,183	(2,424)	(2,135)	2,649
Maintenance capital expenditures[3]	(430)	(1,184)	(187)	(256)	(608)	(133)	(180)	(68)	(172)
Distributable cash	**3,337**	**13,994**	**3,508**	**$3,807**	**$3,425**	**$3,254**	**$2,990**	**$3,367**	**$2,947**
Distributable cash per weighted average diluted Units outstanding	**$0.48**	**$1.99**	**$0.50**	**$0.54**	**$0.49**	**$0.46**	**$0.44**	**$0.48**	**$0.42**
Distributions declared[4]	$1,926	$7,706	$1,927	$1,927	$1,926	$1,926	$1,927	$1,926	$1,926
Distributions declared per unit (see "Non-GAAP Measures")	**$0.28**	**$1.10**	**$0.27**	**$0.28**	**$0.27**	**$0.28**	**$0.27**	**$0.28**	**$0.28**
Payout ratio (see "Non-GAAP Measures")[4]	**57.7%**	**55.1%**	**54.9%**	**50.6%**	**56.2%**	**59.2%**	**64.4%**	**57.2%**	**65.4%**
Weighted average units outstanding during the period – Basic	6,935	6.946	6,935	6,930	6,946	6,970	6,969	6,969	6,961
Weighted average units outstanding during the period – Diluted	6,992	7,000	6,989	6,994	7,010	6,999	6,998	6,996	6,985
12-month trailing									
Distributable cash	14,078		13,994	13,476	13,036	12,558	11,044	9,564	8,245
Distributions	7,706		7,706	7,706	7,705	7,705	7,554	7,138	6,724
Payout ratio	54.7%		55.1%	57.2%	59.1%	61.4%	68.4%	74.6%	81.6%
Cumulative since IPO February 3, 2005									
Distributable cash	49,486		46,149	42,641	38,834	35,409	32,155	29,165	25,798
Distributions	33,204		31,278	29,351	27,424	25,498	23,572	21,645	19,719
Payout ratio	67.1%		67.8%	68.8%	70.7%	72.0%	73.3%	74.2%	76.4%

1. Restated for the adoption of CICA accounting standard 3064, which requires the expensing of certain expenditures related to a pre-operating period of a facility rather than recording them as assets.
2. Net changes in non-cash working capital is excluded from the calculation as management believes it would introduce significant cash flow variability and affect underlying cash flow from operating activities. Significant variability can be caused by such things as the timing of receipts (which individually are large because of the nature of K-Bro's customer base and timing may vary due to the timing of customer approval, vacations of customer personnel, etc.) and the timing of disbursements (such as the payment of large volume rebates done once annually). As well, large increases in working capital are generally required when contracts with new customers are signed as linen is purchased and accounts receivable increase. Management feels that this amount should be excluded from the distributable cash figure which is used as the basis for determining the distributions to be paid.
3. Maintenance capital expenditure is discussed under *Investing Activities*. Also included are software costs included in Intangible Assets.
4. The level of distributions paid compared to distributable cash is reviewed periodically to take into account the current and prospective performance of the business and other items considered to be prudent.

OUTSTANDING UNITS

The Fund has 6,932,562 Fund Units outstanding and 72,411 Special Trust Units outstanding (unchanged from March 31, 2009 and December 31, 2009). The basic and the diluted weighted average number of units outstanding for Q1 2010 were 6,935,281 and 6,992,130 respectively (6,969,676 and 6,999,164 respectively for Q1 2009). The Fund's subsidiary issued 72,411 Exchangeable Shares to certain members of management that 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. Special Trust Units are attached to and issued in conjunction with Exchangeable Shares for the sole purpose of entitling holders thereof to voting rights at any meeting of holders of Fund Units and Special Trust Units.

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 2010 approved LTIP compensation of $1.4 million (2009 – $0.8 million) and approved the funding and transfer of $1.4 million (2009 – $0.8 million) of cash to the LTIP Trust in March 2010 and March 2009 respectively in order to fund the purchase of Units by the LTIP Trust. In April 2010, the LTIP Trust purchased 87,423 Units of the Fund (2009 – 68,171). As at March 31, 2010, 72,739 Units held by the LTIP Trust have vested (December 31, 2009 – 72,739). The cost of the 72,739 unvested units held in trust by the LTIP at March 31, 2010 (December 31, 2009 – 72,739) was $834,137 (December 31, 2009 - $834,137). The basic net earnings per unit calculation exclude the unvested units held by the LTIP Trust.

RELATED PARTY TRANSACTION

The Fund has incurred expenses in the normal course of business for advisory consulting services provided by Matthew Hills, a Trustee, primarily relating to acquisitions. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms. For the three months ended March 31, 2010, the Fund incurred such fees totaling $34,500 (three months ended March 31, 2009 – $34,500).

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements, in conformity with GAAP, requires management of K-Bro to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Management regularly evaluates these estimates and assumptions which are based on past experience and other factors that are deemed reasonable under the circumstances. This involves varying degrees of judgment and uncertainty and, therefore, amounts currently reported in the financial statements could differ in the future. There have been no changes in these accounting estimates from those reported at December 31, 2009.

NON-GAAP MEASURES

EBITDA

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

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

Distributable Cash

Distributable cash is a non-GAAP measure generally used by Canadian income trusts as an indicator of financial performance but it should not be seen as a measurement of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. Management believes that this measure is commonly used by investors, management and other stakeholders to evaluate the ongoing performance of K-Bro. For reconciliation with GAAP, please refer to the *Distributable Cash* section.

Cash Distributions per Unit and Payout Ratios

We report on cash distributions per unit and payout ratios (actual cash distribution divided by distributable cash) because they are believed to be key measures used by investors to value K-Bro, assess its performance and provide an indication of the sustainability of distributions. Cash distributions per unit and the payout ratio depend on the amount of distributable cash generated and the Fund's distribution policy.

The Fund's policy is to make distributions to unitholders of its available cash to the maximum extent possible consistent with good business practices considering requirements for capital expenditures, working capital, growth capital and other reserves considered advisable by the Trustees of the Fund. 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 15th of the following month. All distributions are discretionary. We periodically review cash distributions taking into account our current and prospective performance.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The Fund has adopted the following new standards:

Credit risk and the fair value of financial assets and financial liabilities

Emerging Issues Committee ("EIC") EIC 173, *Credit risk and the fair value of financial assets and financial liabilities* concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities including derivative instruments. This Abstract is to apply to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this Abstract did not have a significant impact to the Fund's consolidated financial statements.

Financial Instruments – Disclosures

Section 3862, *Financial Instruments – Disclosures* was amended in June 2009 by the CICA to improve fair value and liquidity risk disclosures. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs used in a valuation technique are not based on observable market data in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The Fund has also enhanced the liquidity disclosures by including the sources of funding. The additional disclosures required as a result of the adoption of these standards are included in the notes to the audited consolidated financial statements for the year ended December 31, 2009.

Future changes in accounting policies are:

Business combinations

Section 1582 "Business combinations" will be applicable to business combinations for which the acquisition date is on or after 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

Consolidated financial statements

Section 1601 "Consolidated financial statements" will be applicable to financial statements 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.

Non-controlling interests

Section 1602 "Non-controlling interests" will be applicable to financial statements 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.

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian publicly accountable enterprises will be required to adopt IFRS in place of Canadian Generally Accepted Accounting Principles (Canadian GAAP) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. Accordingly, the Fund will issue its last financial statements prepared in accordance with Canadian GAAP in 2010. Starting from the first quarter of 2011, the Fund's financial statements will be prepared in accordance with IFRS in effect in 2011, with 2010 comparative figures and January 1, 2010 (''date of transition'') opening balance sheet restated to conform to IFRS.

Financial reporting under IFRS differs from Canadian GAAP in a number of respects, some of which are significant. IFRS on the date of adoption also is expected to differ from current IFRS due to new IFRS standards and pronouncements that are expected to be issued before the changeover date.

The Fund has established a changeover plan in order to transition its financial statement reporting, presentation and disclosure under IFRS to meet the January 1, 2011 deadline. An implementation team, which is led by finance management, has been created and third party advisors have been utilized to plan for and achieve a smooth transition to IFRS.

The implementation project consists of three primary phases, which in certain cases will be in process concurrently as IFRS is applied to specific areas from start to finish:

Phase 1: Scoping and Diagnostic Phase

This phase involved performing a detailed diagnostic comparing Canadian GAAP to IFRS and identifying key areas that may be impacted by the transition to IFRS. Phase 1 included:

- Performing a detailed analysis of our actual accounting policies and practices with all relevant IFRS standards and applicable interpretations;
- Identifying the different options available to the Fund at the date of transition as well as the ongoing IFRS policy choices that could be applied to prepare subsequent IFRS financial statements; and
- Classifying the differences identified by work streams to analyze and resolve the differences.

Phase 2: Impact Analysis and Design Phase

In this phase, each area identified from the scoping and diagnostic phase were addressed. Phase 2 included:

- Making accounting policy choices, including those under IFRS 1 choices;
- Determining the changes required to existing accounting policies;
- Determining the changes or additions required to information technology and data systems, internal controls over financial reporting and disclosure controls; and
- Developing draft IFRS financial statements.

Phase 3: Implementation and Review Phase

In this last phase, we will implement changes in accounting policies and practices to the different business processes, information systems and internal controls. These changes will be adequately tested before the changeover date to ensure all significant differences have been successfully resolved by the first quarter of 2011.

Current status of our IFRS changeover plan

We have completed Phase 1 and Phase 2 of our conversion project. As a result of this work, we have identified a number of differences and policy alternatives between Canadian GAAP and IFRS that will modify our financial statements at the date of conversion.

The following describes the major identified differences that could be presented in our reconciliation of net earnings and unitholders' equity upon transition if the conversion was done as of December 31, 2009 with currently applicable standards. Key IFRS exemption options are subsequently presented.

Notwithstanding the above, the current International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) projects are likely to significantly modify some of the actual IFRS requirements which might therefore ultimately impact the following identified major differences.

Major differences with current accounting policies

Income Taxes – Temporary differences on intangible assets

Canadian GAAP – Future income taxes are calculated from temporary differences that are differences between the tax basis of an asset or liability and its carrying amount in the balance sheet. Under the current Canadian Income Tax Act, "eligible capital expenditures" are deductible for tax purposes to the extent of 75 percent of the cost incurred; Section 3465 – *Income taxes* addresses this specific situation and specifies that for these assets, at any point in time, the tax basis represents the balance in the cumulative eligible capital pool plus 25 percent of the carrying amount.

IFRS – The definition of temporary differences under IFRS is generally consistent with Canadian GAAP. However, IFRS does not provide specific guidance in relation to the determination of the tax basis of eligible capital expenditures such as the one described above. As such, the tax basis of these assets, without taking into consideration the 25 percent adjustment of the carrying amount as allowed under Canadian GAAP, should be compared with the carrying amount in the balance sheet to determine the temporary difference relating to these assets.

Business Combinations

Canadian GAAP – Business combinations are currently accounted for using Section 1581 – *Business combinations*. The recognition and measurement requirements applicable under this Section differ in a number of ways from the IFRS standards applicable to business combinations.

IFRS – Business combinations will be accounted for in accordance with IFRS 3 – *Business Combinations*. Under IFRS 3, acquisition costs such as legal and consulting fees that the acquirer incurs to effect a business combination are recognized as expenses then they are incurred. They are not included as part of the purchase consideration as they are under GAAP. The allocation of the purchase consideration to assets and liabilities will be in accordance with other IFRS provisions that may differ from GAAP. Contingent consideration is included in the fair value of consideration where it is probable that the outflow will occur. In addition, an entity making the transition to IFRS will be required to show comparative information for any business combinations completed during the preceding fiscal year measured and presented in accordance with IFRS 3. This will impact the accounting for the recent acquisition in Vancouver (see *Summary of Results and Key Events*).

Consolidation and non-controlling interests

Canadian GAAP – Section 1600 – *Consolidated financial statements* currently establishes standards for the preparation of consolidated financial statements. This section differs in a number of ways from the IFRS standards applicable for consolidation and non-controlling interests. However, none of these differences are expected to impact the Fund.

Grouping of assets for impairment purposes

Canadian GAAP – When a long-lived asset does not have identifiable cash flows that are largely independent of those from other assets, that asset must be grouped with other related assets for impairment. This is referred to as the asset group.

IFRS – Asset grouping should be done when an asset does not have identifiable cash inflows, as opposed to net cash flows, that are independent of those from other assets. The Fund's individual operations have identifiable cash inflows and will therefore be evaluated individually for impairment purposes.

Key IFRS 1 Exemption Options

1. Business combinations – IFRS 3, *Business Combinations*, may be applied retrospectively or prospectively. The retrospective basis would require restatement of all business combinations that occurred prior to the transition date. We will not elect to retrospectively apply IFRS 3 to business combinations that occurred prior to the Transition Date and such business combinations will not be restated. Any goodwill arising on such business combinations before the Transition Date will not be adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions except as required under IFRS 1, unless warranted by an impairment test.

2. Fair value as deemed cost – IFRS 1 provides a choice between measuring property, plant and equipment at its fair value at the date of transition and using those amounts as deemed cost or using the historical valuation under the prior GAAP. We will continue to apply the cost model for property, plant and equipment and will not restate property, plant and equipment to fair value under IFRS. We will use the historical bases under Canadian GAAP as deemed cost under IFRS at Transition Date.

At this time, the quantitative impact on these differences and elections on our future financial position and results of operations is not reasonably determinable or estimable. However, they should not impact distributable cash given that the majority of these adjustments are not cash related.

The following table summarizes the status of our changeover plan based on the recommendations published in October 2008 by the Canadian Performance Reporting Board with regards to the Pre-2011 communications about IFRS conversion. Given the progress of the project and outcomes identified, we could change our intentions between the time of communicating these key milestones below and the changeover date. Further, changes in regulation or economic conditions at the date of the changeover or through the project could result in change of the project activities communicated in the following chart.

Key Activity	Milestones/Deadlines	Status
Financial Statement Preparation: ▪ Identify differences between IFRS and Canadian GAAP accounting policies ▪ Selection of IFRS policies ▪ Select choices under IFRS 1 ▪ Develop financial statement format ▪ Quantify effects of change in initial IFRS1 disclosures and 2010 financial statements	Senior Management sign-off and audit committee review for all items by end of fourth quarter, 2009.	Differences have been identified and documented. Recommendation regarding IFRS policies and selection of choices under IFRS 1 have been finalized.
Staffing: Define and introduce appropriate level of IFRS expertise for each of the following: ▪ Accounting staff ▪ Senior executives and Board, including Audit Committee	Appropriate level of expertise to be in place by second quarter 2009.	Experienced consultant contracted in July, 2009 and work was completed in December, 2009. Review of work by external accounting advisors was completed. Internal resource assessment ongoing.
Infrastructure: Ensure information technology is fully compliant for IFRS as follows: ▪ Capability of system to produce dual financial statements (Canadian GAAP and IFRS) during the transition years ▪ Programs upgrades/changes ▪ Gathering disclosure data ▪ Budget/forecast monitoring process	Ready for parallel processing of 2010 general ledgers and for planning/monitoring process.	Process currently underway in conjunction with financial systems software upgrade.
Business Policy Assessment: Financial Covenants ▪ Identify impact of IFRS on financial covenants ▪ Complete any required renegotiations/changes	Renegotiations to be completed by fourth quarter 2010.	Process of identifying metrics affected by conversion to IFRS currently underway. Preliminary discussions with bank held.
Business Policy Assessment: Compensation Arrangements ▪ Identify impact on compensation arrangements ▪ Make any required changes	Fourth quarter 2010.	Process of identifying metrics affected by conversion to IFRS currently underway.
Business Policy Assessment: Customer and Supplier Contracts ▪ Evaluate impact of IFRS on current customer or supplier contracts.	Complete review by end of second quarter 2010.	Process of identifying IFRS consequences in process.
Control Environment: ICFR ▪ For all accounting policy changes identified, assess ICFR design and effectiveness implications. ▪ Implement changes where appropriate.	Fourth quarter 2009.	Reviewed in conjunction with accounting policies. No substantive changes identified as being required.
Control Environment: DC&P ▪ For all accounting policy changes identified, assess DC&P design and effectiveness implications. ▪ Implement changes where appropriate.	See ICFR deadlines above. Publish impact of conversion on Key Performance Indicators in third quarter, 2010 MD&A. Publish material changes in policies and expectations by January 10, 2011. Publish revised 2010 results and MD&A by March 31, 2011.	To be reviewed in conjunction with accounting policies.

FINANCIAL INSTRUMENTS

K-Bro's financial instruments at March 31, 2010 consist of accounts receivable, accounts payable and accrued liabilities, distribution payable to unitholders, long-term debt and an interest rate swap agreement. The Fund does not enter into financial instruments for trading or speculative purposes. Financial assets are either classified as available for sale, held to maturity, trading or loans and receivables. Financial liabilities are recorded at amortized cost. 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 are 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 capitalized and then amortized over the expected life of the financial instrument using the effective interest method.

Derivative financial instruments are utilized by K-Bro to manage cashflow risk against the volatility in interest rates on its long-term debt and foreign exchange rates on its equipment purchase commitments. K-Bro does not utilize derivative financial instruments for trading or speculative purposes. K-Bro has floating interest rate debt that gives rise to risks that its earnings and cash flows may be adversely impacted by fluctuations in interest rates. In order to manage these risks, K-Bro may enter into interest rate swaps, forward contracts or option contracts. K-Bro has entered into an interest rate swap arrangement as described under *Financing Activities*.

It is K-Bro's policy to document all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. K-Bro also assesses, both at the hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair value or cash flows of hedged items. K-Bro's interest rate swaps, forward contracts or option contracts are designated as hedges when the underlying risks of the hedged and hedging instruments offset to manage K-Bro's exposure. Gains or losses relating to such contracts are accounted for as discussed above.

CRITICAL RISKS AND UNCERTAINTIES

As at March 31, 2010, there are no material changes in the Fund's risks or risk management activities since December 31, 2009. The Fund's results of operations, business prospects, financial condition, cash distributions to Unitholders and the trading price of the Fund's units are subject to a number of risks. These risk factors include: dependence on long-term contracts and the associated renewal risk thereof; the effects of market volatility and uncertainty; potential future tax changes; the competitive environment; our ability to acquire and successfully integrate and operate additional businesses; utility costs; the labour markets; the fact that our credit facility imposes numerous covenants and encumbers assets; and, environmental matters.

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

CONTROLS AND PROCEDURES

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

Disclosure Controls and Procedures

As of December 31, 2009, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Multilateral Instrument 52-109 was performed under the supervision of the President and Chief Executive Officer and the Vice President and Chief Financial Officer who attested that the design and operation of these disclosure controls and procedures were effective, as at December 31, 2009. K-Bro's management can therefore provide reasonable assurance that material information relating to the Fund is reported to it in a timely manner so that it can provide investors with complete and reliable information.

Management also concluded that during the three months ended March 31, 2010, no changes were made to internal controls over financial reporting that would have materially affected, or would be reasonably considered to materially affect, these controls.

Internal Controls over Financial Reporting

K-Bro undertook the documentation and assessment of the design of internal controls over financial reporting for its operating and accounting processes. Similar to the evaluation of disclosure controls and procedures referred to above, the design of internal controls over financial reporting was evaluated as defined in Multilateral Instrument 52-109. Based on the results of this evaluation, the President and Chief Executive Officer and the Vice President and Chief Financial Officer attested that the internal controls over financial reporting are designed to provide reasonable assurance that its financial reporting is reliable and that K-Bro's consolidated financial statements were prepared in accordance with Canadian GAAP.

Management also concluded that during the three months ended March 31, 2010, no changes were made to internal controls over financial reporting that would have materially affected, or would be reasonably considered to materially affect, these controls.

A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instance of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that managements' assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or, (ii) the impact of isolated errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

STRATEGY

K-Bro maintains the following three-part strategic focus:

Secure and Maintain Long-Term Contracts with Large Healthcare and Hospitality Customers – K-Bro's core service is providing high quality laundry and linen services at competitive prices to large healthcare and hospitality customers under long-term contracts. K-Bro's contracts in the healthcare sector typically range from seven to ten years in length. Contracts in the hospitality sector typically range from two to five years.

Extend Core Services To New Markets – Management has demonstrated its ability to successfully expand K-Bro's business into new markets from its established base in Edmonton and Toronto. K-Bro entered the Calgary market in 1998, the Vancouver market in 2003, the Victoria market in 2006 and the Quebec market in 2008. A second plant in Vancouver was acquired in January, 2010. These new markets have contributed significantly to K-Bro's growth. Management believes that new outsourcing opportunities will continue to arise in the near to medium-term and that K-Bro is well-positioned for continued growth, particularly as healthcare and hospitality institutions continue to increase their focus on core services and confront pressures for capital and cost savings.

Management may in the future expand its core services to new markets either through acquisitions or by establishing new facilities. Its choice of areas for expansion will depend on the availability of suitable acquisition candidates, the volume of healthcare linen to be processed and the policies of applicable governments.

Introduce Related Services – In addition to focusing on its core services, K-Bro also attempts to capitalize on attractive business opportunities by introducing closely-related services that enable it to provide more complete solutions to the K-Bro's healthcare customers. These related service offerings include K-Bro Operating Room Services ("KOR") and on-site services. For three major hospitals in Toronto, K-Bro has introduced the sterilization of operating room linen packs to its menu of services.