



Q1, 2011
Consolidated
Financial
Statements

dependable.

Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	March 31, 2011	December 31, 2010 <i>(note 18)</i>	January 1, 2010 <i>(note 18)</i>
ASSETS			
Current assets			
Accounts receivable	\$ 14,664	\$ 13,352	\$ 9,451
Linen in service	7,649	7,840	7,249
Prepaid expenses and deposits	766	798	607
	23,079	21,990	17,307
Deferred income taxes (note 10)	-	-	449
Property, plant and equipment (note 5)	33,203	33,857	33,812
Intangible assets (note 6)	14,558	15,199	14,595
Goodwill	19,633	19,633	16,220
	\$ 90,473	\$ 90,679	\$ 82,383
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	\$ 14,069	\$ 13,326	\$ 9,880
Income taxes payable	357	-	-
Dividends payable to shareholders	642	-	642
	15,068	13,326	10,522
Long-term debt (note 7)	8,838	10,763	4,043
Unamortized lease inducements (note 9)	555	566	611
Deferred income taxes (note 10)	3,686	3,446	3,713
	28,147	28,101	18,889
SHAREHOLDERS' EQUITY			
Share capital (note 12)	69,799	69,799	70,566
Contributed surplus	1,260	1,141	572
Deficit	(8,733)	(8,362)	(7,609)
Accumulated other comprehensive loss	-	-	(35)
	62,326	62,578	63,494
Contingencies and commitments (note 11)	\$ 90,473	\$ 90,679	\$ 82,383

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

Consolidated Statements of Earnings & Comprehensive Income

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

	Three Months Ended March 31,	
	2011	2010 <i>(note 18)</i>
Revenue	\$ 27,686	\$ 23,932
Expenses		
Wages and benefits	12,794	10,773
Linen	2,938	2,523
Utilities	2,194	2,011
Delivery	1,197	944
Occupancy costs	947	937
Materials and supplies	854	873
Repairs and maintenance	921	872
Corporate	1,362	1,323
	23,207	20,256
Earnings before the undernoted	4,479	3,676
Other expenses		
Depreciation of property, plant and equipment	1,575	1,546
Amortization of intangible assets	641	618
Financial charges (note 8)	104	127
Loss on disposal of property, plant and equipment	6	-
	2,326	2,291
Earnings before income taxes	2,153	1,385
Income tax expense (recovery)	597	(42)
Net earnings	1,556	1,427
Gain on derivative financial instruments, net	-	(25)
Comprehensive income	\$ 1,556	\$ 1,452
Net earnings per share:		
Basic	\$ 0.23	\$ 0.21
Diluted	\$ 0.22	\$ 0.20
Weighted average number of shares outstanding (note 12c):		
Basic	6,890,899	6,935,281
Diluted	6,992,622	6,992,130

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

Consolidated Statements of Changes in Equity

(unaudited, thousands of Canadian dollars)

	Three Months Ended March 31,	
	2011	2010
Exchangeable shares		
Balance, beginning of year	\$ 724	\$ 724
Conversion into Common shares	(724)	-
Balance, end of period	\$ -	\$ 724
Fund units		
Balance, beginning of year	\$ 70,676	\$ 70,676
Conversion into Common shares	(70,676)	-
Balance, end of period	\$ -	\$ 70,676
Common shares		
Balance, beginning of year	\$ -	\$ -
Conversion of exchangeable shares	724	-
Conversion of fund units	70,676	-
Balance, end of period	\$ 71,400	\$ -
Shares/Fund units held in trust		
Balance, beginning of year	\$ (1,601)	\$ (834)
Change during the period	-	-
Balance, end of period	\$ (1,601)	\$ (834)
Total share capital	\$ 69,799	\$ 70,566
Contributed surplus		
Balance, beginning of year	\$ 1,141	\$ 572
Stock-based compensation	119	62
Balance, end of period	\$ 1,260	\$ 634
Deficit		
Balance, beginning of year	\$ (8,362)	\$ (7,609)
Net earnings	1,556	1,427
Dividends paid on common shares	(1,927)	(1,927)
Balance, end of period	\$ (8,733)	\$ (8,109)
Accumulated other comprehensive income		
Balance, beginning of year	\$ -	\$ (35)
Unrealized gain on derivative financial instruments, net	-	25
Balance, end of period	\$ -	\$ (10)
Total Shareholders' Equity	\$ 62,326	\$ 63,081

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

Consolidated Statements of Cash Flow

(unaudited, thousands of Canadian dollars)

	Three Months Ended March 31,	
	2011	2010
OPERATING ACTIVITIES		
Net earnings	\$ 1,556	\$ 1,427
Depreciation of property, plant and equipment	1,575	1,546
Amortization of intangible assets	641	618
Amortization of lease inducements (note 9)	(11)	(14)
Loss on disposal of property, plant and equipment	6	-
Future income taxes	240	(42)
	4,007	3,535
Change in non-cash balances relating to operations (note 14)	130	(205)
Cash provided by operating activities	4,137	3,330
FINANCING ACTIVITIES		
Proceeds from revolving credit facility	-	11,869
Repayments to revolving credit facility	(1,925)	-
Dividends paid to shareholders	(1,285)	(1,927)
Cash used in financing activities	(3,210)	9,942
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(930)	(1,117)
Proceeds from disposal of property, plant and equipment	3	-
Purchase of intangible assets	-	(208)
Acquisition of business	-	(11,947)
Cash used in investing activities	(927)	(13,272)
Change in cash during the year	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -
Supplementary cash flow information		
Interest paid	\$ 70	\$ 101
Income taxes	\$ -	\$ -

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

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 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 seven processing facilities in six major cities across Canada from Victoria, British Columbia to Québec City, Québec.

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

These unaudited interim Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors ("the Board") on May 12, 2011.

1 Basis of Presentation

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

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

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

The preparation of these unaudited interim Consolidated Financial Statements resulted in selected changes to K-Bro's accounting policies as compared to those disclosed in the Corporation's audited annual Consolidated Financial Statements for the year ended December 31, 2010 issued under previous GAAP. A summary of the significant changes to K-Bro's accounting policies along with reconciliations presenting the impact of the transition to IFRS for the comparative periods as at January 1, 2010, as at and for the three months ended March 31, 2010, and as at and for the twelve months ended December 31, 2010 is in note 18.

These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1 as disclosed in note 18. The policies applied in these unaudited interim consolidated financial statements are based on IFRS issued and outstanding as of May 12, 2011. Any subsequent changes to IFRS that are given effect in the Corporation's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these unaudited interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts,
three months ended March 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 unaudited interim consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments and available-for-sale investments.

b) Principles of Consolidation

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

c) Use of Estimates

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

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

d) Linen in Service

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

e) Revenue Recognition

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

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2011 and 2010)

f) Property, Plant and Equipment

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

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

The Corporation has applied this change in accounting estimate on a prospective basis beginning January 1, 2010. As a result of the change, the depreciation expense increased by \$725 and \$133 for the year ended December 31, 2010 and three-months ended March 31, 2011, respectively, than if it had been calculated without the revised estimated service lives.

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

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

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

g) Impairment of Financial Assets

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

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

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2011 and 2010)

h) Impairment of Non-Financial Assets

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

i) Intangible Assets

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

j) Income Taxes

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

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

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

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

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

k) 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.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2011 and 2010)

l) Goodwill

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

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

m) Volume Rebates

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

n) Earnings Per Share

Basic earnings per share ("EPS") is calculated by dividing net income (loss) 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 (note 2o(ii)).

o) Employee Benefits

i) Post-employment benefit obligations

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

ii) Equity based compensation

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

The LTIP trustee purchases common shares in the open market with these funds and holds such common shares until ownership vests to each participant. Under the current LTIP, subject to the Board's discretion to accelerate vesting, one-quarter of the LTIP Shares (and/or cash) vest thirty days following the date that the Directors of the Corporation approve the audited consolidated financial statements of the Corporation (the "Determination Date"). The remaining three-quarters vest on the second anniversary of the Determination Date. In most circumstances, unvested common shares (and/or cash) held by the trustee for an LTIP participant will be forfeited if the participant resigns or is terminated for cause prior to the applicable vesting date, and those LTIP shares will be sold and the proceeds returned to the Corporation.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2011 and 2010)

Subject to the approval of the Shareholders, the Corporation intends to adopt a new long-term incentive plan at the annual general and special meeting scheduled for June 16, 2011 (note 19).

p) Financial Instruments

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

Available-for-sale

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

Loans, receivables and other liabilities

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

The Corporation has made the following classifications:

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

3 Accounting Standards Issued but not Applied

International Financial Reporting Standard 9, *Financial Instruments* ("IFRS 9"), addresses classification and measurement of financial assets and 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 and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income.

Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Corporation is presently assessing the impact this standard will have on the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2011 and 2010)

4 Business Acquisition

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 purchase method, whereby the purchase consideration was allocated to the fair values of the net assets acquired. The acquisition was funded through the Corporation's revolving credit facility.

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

	March 31, 2011 ⁽¹⁾
Consideration	
Purchase price	\$ 12,259
Less:	
Restricted escrow funds ⁽²⁾	-
Cash consideration	\$ 12,259
Net assets acquired:	
Working capital	\$ 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 are eligible for capitalization. As a part of the Corporation's IFRS adjustments goodwill has been reduced by an aggregate amount of \$665 as at December 31, 2010 (note 18).

⁽²⁾ Of the cash consideration payable, \$250 was deposited with an escrow agent to be held and released to the vendor upon the determination that certain representations and warranties were satisfied in the twelve-month period subsequent to the acquisition. This amount represents a contingent payment which under IFRS must be recognized in goodwill when the amount is likely to be paid. Accordingly the full amount has been reclassified as goodwill as of March 31, 2010. On January 31, 2011 the full amount of the escrow account was released 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.

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, 2010 because required accounting records are not available prior to the date of acquisition.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts,
three months ended March 31, 2011 and 2010)

5 Property, plant and equipment

	Land	Buildings	Laundry Equipment	Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements	Spare Parts	Total
At January 1, 2010									
Cost	\$ 70	\$ 550	\$ 37,504	\$ 692	\$ 421	\$ 1,337	\$ 11,131	\$ 229	\$ 51,934
Accumulated depreciation	-	(51)	(13,655)	(242)	(219)	(801)	(3,154)	-	(18,122)
Net book amount	\$ 70	\$ 499	\$ 23,849	\$ 450	\$ 202	\$ 536	\$ 7,977	\$ 229	\$ 33,812
Year Ended, December 31, 2010									
Opening net book amount	\$ 70	\$ 499	\$ 23,849	\$ 450	\$ 202	\$ 536	\$ 7,977	\$ 229	\$ 33,812
Additions	-	5	5,451	43	650	103	109	283	6,644
Disposals	-	-	(57)	(135)	(12)	(4)	-	-	(208)
Depreciation charge	-	(43)	(4,234)	(139)	(50)	(572)	(1,353)	-	(6,391)
Closing net book amount	\$ 70	\$ 461	\$ 25,009	\$ 219	\$ 790	\$ 63	\$ 6,733	\$ 512	\$ 33,857
At January 1, 2011									
Cost	\$ 70	\$ 555	\$ 42,842	\$ 537	\$ 1,025	\$ 1,436	\$ 11,240	\$ 512	\$ 58,217
Accumulated depreciation	-	(94)	(17,833)	(318)	(235)	(1,373)	(4,507)	-	(24,360)
Net book amount	\$ 70	\$ 461	\$ 25,009	\$ 219	\$ 790	\$ 63	\$ 6,733	\$ 512	\$ 33,857
Period Ended March 31, 2011									
Opening net book amount	\$ 70	\$ 461	\$ 25,009	\$ 219	\$ 790	\$ 63	\$ 6,733	\$ 512	\$ 33,857
Additions	-	-	793	3	9	35	14	76	930
Disposals	-	-	(9)	-	-	-	-	-	(9)
Depreciation charge	-	(11)	(1,119)	(37)	(22)	(16)	(370)	-	(1,575)
Closing net book amount	\$ 70	\$ 450	\$ 24,674	\$ 185	\$ 777	\$ 82	\$ 6,377	\$ 588	\$ 33,203
At March 31, 2011									
Cost	\$ 70	\$ 555	\$ 43,620	\$ 540	\$ 1,034	\$ 1,471	\$ 11,254	\$ 588	\$ 59,132
Accumulated depreciation	-	(105)	(18,946)	(355)	(257)	(1,389)	(4,877)	-	(25,929)
Net book amount	\$ 70	\$ 450	\$ 24,674	\$ 185	\$ 777	\$ 82	\$ 6,377	\$ 588	\$ 33,203

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2011 and 2010)

6 Intangible assets

	Healthcare Contracts	Hospitality Contracts	Computer Software	Total
At January 1, 2010				
Cost	\$ 19,200	\$ 4,697	\$ 679	\$ 24,576
Accumulated depreciation	(7,948)	(2,033)	-	(9,981)
Net book amount	\$ 11,252	\$ 2,664	\$ 679	\$ 14,595

Year ended, December 31, 2010				
Opening net book amount	\$ 11,252	\$ 2,664	\$ 679	\$ 14,595
Additions	-	2,900	244	3,144
Depreciation charge	(1,616)	(745)	(179)	(2,540)
Closing net book amount	\$ 9,636	\$ 4,819	\$ 744	\$ 15,199

At January 1, 2011				
Cost	\$ 19,200	\$ 7,597	\$ 923	\$ 27,720
Accumulated depreciation	(9,564)	(2,778)	(179)	(12,521)
Net book amount	\$ 9,636	\$ 4,819	\$ 744	\$ 15,199

Period ended, March 31, 2011				
Opening net book amount	\$ 9,636	\$ 4,819	\$ 744	\$ 15,199
Depreciation charge	(404)	(191)	(46)	(641)
Closing net book amount	\$ 9,232	\$ 4,628	\$ 698	\$ 14,558

At March 31, 2011				
Cost	\$ 19,200	\$ 7,597	\$ 923	\$ 27,720
Accumulated depreciation	(9,968)	(2,969)	(225)	(13,162)
Net book amount	\$ 9,232	\$ 4,628	\$ 698	\$ 14,558

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2011 and 2010)

7 Long-term debt

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

At January 1, 2011	\$ 4,000	\$ 6,763	\$ 10,763
New debt	-	-	-
Repayment of debt	-	(1,925)	(1,925)
Closing Balance at March 31, 2011	4,000	4,838	8,838
Current portion of long-term debt	-	-	-
Non-current portion of long-term debt	4,000	4,838	8,838
	\$ 4,000	\$ 4,838	\$ 8,838

⁽¹⁾ Bankers' Acceptances bear interest at 30 day BA rates plus 2.5% depending on certain financial ratios, renewable monthly until June 30, 2012. As at March 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, 2012. As at March 31, 2011, the interest rate was 4.0%.

The Corporation has a revolving credit facility of up to \$40,000 of which \$9,088 is drawn (including letters of credit totalling \$250 per note 11a). The facility is a two-year committed facility maturing June 30, 2012. It is extendable annually for another year at the lender's option. Interest payments only are due during the term of the facility.

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

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

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

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2011 and 2010)

8 Financial charges

	Three Months Ended March 31,	
	2011	2010
Interest on long-term debt	\$ 71	\$ 136
Other charges, net	33	(9)
	\$ 104	\$ 127

9 Unamortized lease inducements

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

The balance consists of:

	March 31, 2011	December 31, 2010
Lease inducements received	\$ 699	\$ 699
Accumulated amortization, net	(99)	(88)
	600	611
Less current portion, included in accrued liabilities	(45)	(45)
	\$ 555	\$ 566

10 Deferred income tax liability

Deferred income tax liabilities are attributable to the following items:

	March 31, 2011	December 31, 2010
Linen in service	\$ (976)	\$ (620)
Accounts payable and accrued liabilities	538	535
Property, plant & equipment	(1,057)	(1,095)
Intangible assets & Goodwill	(2,411)	(2,506)
Offering costs & other	220	240
Deferred income tax liability	\$ (3,686)	\$ (3,446)

The amount of goodwill deductible for tax purposes is \$7,275 (2010 - \$7,025).

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts,
three months ended March 31, 2011 and 2010)

11 Contingencies and commitments

a) Contingencies – Letters of credit

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

b) Commitments

(i) Operating leases and utility commitments

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

Remainder of 2011	\$	4,633
2012		4,483
2013		2,097
2014		1,654
2015		1,202
Subsequent		2,011
	\$	16,080

(ii) Linen purchase commitments

At March 31, 2011, the Corporation was committed to linen expenditure obligations in the amount of \$2,702 (2010 – \$1,729).

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2011 and 2010)

12 Share Capital

a) Authorized

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

b) Issued and outstanding

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

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

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2011 and 2010)

c) Weighted average number of shares outstanding

	Three Months Ended March 31,	
	2011	2010
Balance, beginning of period	7,004,973	7,004,973
Weighted average unvested shares purchased for LTIP	(114,074)	(69,692)
Basic weighted average shares for the period	6,890,899	6,935,281
Basic weighted average shares for the period	6,890,899	6,935,281
Dilutive effect of LTIP shares	101,723	56,849
Fully diluted weighted average shares for the period	6,992,622	6,992,130

13 Dividends to shareholders

The Corporation's policy is to pay dividends to shareholders of its available cash to the maximum extent possible consistent with good business practice considering requirements for capital expenditures, working capital, growth capital and other reserves considered advisable by the Directors of the Corporation. All such dividends are discretionary. Dividends are declared payable each month to the shareholders on the last business day of each month and are paid by the 15th day of the following month.

During the three months ended March 31, 2011, the Corporation declared total dividends to shareholders of \$1,927 or \$1.10 per share. During the three months ended March 31, 2010, the Corporation declared total dividends to shareholders of \$1,927 or \$1.10 per share.

14 Net change in non-cash working capital items

	Three Months Ended March 31,	
	2011	2010
Accounts receivable	\$ (1,312)	\$ (997)
Linen in service	191	238
Prepaid expenses and deposits	32	(186)
Accounts payable and accrued liabilities	862	740
Income taxes payable	357	-
	\$ 130	\$ (205)

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts,
three months ended March 31, 2011 and 2010)

15 Capital management

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

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

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

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

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

	Twelve Months Ended	
	March 31, 2011	December 31, 2010
Long-term debt, including current portion	\$ 8,838	\$ 10,763
Issued and outstanding letters of credit	250	250
Funded debt	9,088	11,013
Net earnings for the trailing twelve months	7,082	6,953
Add:		
Income tax expense (recovery)	802	163
Interest expense and financial charges, net	620	643
Depreciation of property, plant and equipment	6,420	6,391
Amortization of intangible assets	2,563	2,540
EBITDA	\$ 17,487	\$ 16,690
Funded debt to EBITDA	0.52x	0.66x

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2011 and 2010)

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

	Twelve Months Ended	
	March 31, 2011	December 31, 2010
EBITDA	\$ 17,487	\$ 16,690
Interest expense and financial charges, net	620	643
Dividends to shareholders	7,706	7,706
	\$ 8,326	\$ 8,349
Fixed charge coverage	2.1x	2.0x

16 Segmented information

The Corporation provides laundry and linen services to the healthcare and hospitality sectors through operating divisions in Vancouver, Victoria, Calgary, Edmonton, Toronto 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 results of the Greater Vancouver operation acquired (note 4) are reported commencing February 1, 2010.

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 was renewed and 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 three months ended March 31, 2011, the Corporation has recorded revenue of \$13,605 (2010 – \$13,051) from these three major customers, representing 49.1% (2010 – 54.5%) of total revenue.

	Three Months Ended March 31, 2011		Three Months Ended March 31, 2010	
	Healthcare	\$ 19,941	72.0%	\$ 17,137
Hospitality	7,745	28.0%	6,795	28.4%
	\$ 27,686	100.0%	\$ 23,932	100%

17 Related party transaction

The Corporation has incurred expenses in the normal course of business for advisory consulting services provided by a Director primarily relating to acquisitions. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms. For the three months ended March 31, 2011, the Corporation incurred such fees totalling \$35 (2010 – \$35).

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts,
three months ended March 31, 2011 and 2010)

18 Transition to IFRS

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

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

IFRS 1 requires the presentation of comparative information as at the January 1, 2010 transition date and subsequent 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 Balance Sheets as at January 1, 2010, March 31, 2010 and December 31, 2010, and Consolidated Statements of Earnings and Deficit, for the three months ended March 31, 2010 and for the twelve months ended December 31, 2010.

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts,
three months ended March 31, 2011 and 2010)

Opening Consolidated Balance Sheet

As at January 1, 2010

	Previous GAAP	IFRS Adjustments			IFRS
		Prepaid Expenses & Deposits	Acquisition Adjustments	Deferred Taxes	
ASSETS					
Current assets					
Accounts receivable	\$ 9,451	\$ -	\$ -	\$ -	\$ 9,451
Linen in service (note 18a)	7,305	(56)	-	-	7,249
Prepaid expenses and deposits (note 18a, 18b)	1,213	(233)	(373)	-	607
Deferred income taxes (note 18c)	449	-	-	(449)	-
	18,418	(289)	(373)	(449)	17,307
Deferred income taxes (note 18c)	-	-	-	449	449
Property, plant and equipment (note 18a)	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 (note 18c)	3,847	-	-	(134)	3,713
	19,023	-	-	(134)	18,889
UNITHOLDERS' EQUITY					
Equity capital	70,566	-	-	-	70,566
Contributed surplus	572	-	-	-	572
Deficit (note 18a, 18b, 18c)	(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

(unaudited, thousands of Canadian dollars except share and per share amounts,
three months ended March 31, 2011 and 2010)

Consolidated Balance Sheet

As at March 31, 2010

	IFRS Adjustments						IFRS
	Previous GAAP	Prepaid Expenses & Deposits	Acquisition Adjustments	Deferred Taxes	PPE Impact		
ASSETS							
Current assets							
Accounts receivable	\$ 11,912	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,912
Linen in service (note 18a)	7,589	(78)	-	-	-	-	7,511
Prepaid expenses and deposits (note 18a, 18b)	1,108	(315)	-	-	-	-	793
Deferred income taxes (note 18b, 18c)	253	-	-	(253)	-	-	-
	20,862	(393)	-	(253)	-	-	20,216
Restricted escrow funds (note 18b)	250	-	(250)	-	-	-	-
Deferred income taxes (note 18b, 18c)	-	-	-	269	-	-	269
Property, plant and equipment (note 18a)	36,918	333	-	-	(131)	-	37,120
Intangible assets	17,085	-	-	-	-	-	17,085
Goodwill (note 18b)	19,988	-	(355)	-	-	-	19,633
	\$ 95,103	\$ (60)	\$ (605)	\$ 16	\$ (131)	\$	\$ 94,323
LIABILITIES							
Current liabilities							
Accounts payable and accrued liabilities	\$ 10,590	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,590
Distribution payable to unitholders	642	-	-	-	-	-	642
	11,232	-	-	-	-	-	11,232
Long-term debt	15,912	-	-	-	-	-	15,912
Unamortized lease inducements	597	-	-	-	-	-	597
Deferred income taxes (note 18b)	3,637	-	-	(136)	-	-	3,501
	31,378	-	-	(136)	-	-	31,242
UNITHOLDERS' EQUITY							
Equity capital	70,566	-	-	-	-	-	70,566
Contributed surplus	634	-	-	-	-	-	634
Deficit (note 18a, 18b, 18c)	(7,465)	(60)	(605)	152	(131)	-	(8,109)
Accumulated other comprehensive loss	(10)	-	-	-	-	-	(10)
	63,725	(60)	(605)	152	(131)	-	63,081
	\$ 95,103	\$ (60)	\$ (605)	\$ 16	\$ (131)	\$	\$ 94,323

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts,
three months ended March 31, 2011 and 2010)

Consolidated Balance Sheet

As at December 31, 2010

	Previous GAAP	IFRS Adjustments				IFRS
		Prepaid Expenses & Deposits	Acquisition Adjustments	Deferred Taxes	PPE Impact	
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 (note 18b)	250	-	(250)	-	-	-
Property, plant and equipment (note 18a)	34,070	512	-	-	(725)	33,857
Intangible assets	15,199	-	-	-	-	15,199
Goodwill (note 18b)	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 (note 18b)	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 (note 18a, 18b, 18c)	(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

(unaudited, thousands of Canadian dollars except share and per share amounts,
three months ended March 31, 2011 and 2010)

Consolidated Statement of Earnings and Deficit

Three Months Ended March 31, 2010

	Previous GAAP	IFRS Adjustments			IFRS
		Prepaid Expenses & Deposits	Acquisition Adjustments	PPE Impact	
Revenue	\$ 23,932	\$ -	\$ -	\$ -	\$ 23,932
Expenses					
Wages and benefits	10,773	-	-	-	10,773
Linen	2,523	-	-	-	2,523
Utilities	2,011	-	-	-	2,011
Delivery	944	-	-	-	944
Occupancy costs	937	-	-	-	937
Materials and supplies	873	-	-	-	873
Repairs and maintenance	872	-	-	-	872
Corporate (note 18b)	1,091	-	232	-	1,323
	20,024	-	232	-	20,256
Earnings before the undernoted	3,908	-	(232)	-	3,676
Other expenses					
Depreciation of property, plant and equipment (note 18a)	1,415	-	-	131	1,546
Amortization of intangible assets	618	-	-	-	618
Financial charges	127	-	-	-	127
Loss on disposal of property, plant and equipment	-	-	-	-	-
	2,160	-	-	131	2,291
Earnings before income taxes	1,748	-	(232)	(131)	1,385
Income tax expense (recovery)	(24)	-	(12)	(6)	(42)
Net earnings	\$ 1,772	\$ -	\$ (220)	\$ (125)	\$ 1,427
Deficit, beginning of year	(7,310)	(41)	(258)	-	(7,609)
Distributions to unitholders	(1,927)	-	-	-	(1,927)
Deficit, end of period	\$ (7,465)	\$ (41)	\$ (478)	\$ (125)	\$ (8,109)
Net earnings per share:					
Basic	\$ 0.26				\$ 0.21
Diluted	\$ 0.25				\$ 0.20
Weighted average number of shares outstanding:					
Basic	6,935,281				6,935,281
Diluted	6,992,130				6,992,130

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts,
three months ended March 31, 2011 and 2010)

Consolidated Statement of Earnings and Deficit

Year Ended December 31, 2010

	Previous GAAP	IFRS Adjustments			IFRS
		Prepaid Expenses & Deposits	Acquisition Adjustments	PPE Impact	
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 (note 18b)	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 (note 18a)	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

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2011 and 2010)

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

IFRS Adjustments

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

Under previous GAAP spare parts were previously expensed as incurred or recognized as prepaid expenses in other current assets or in linen-in-service. K-Bro has determined that the new IFRS policy for spare parts going forward is that items under \$5,000 will be expensed as incurred, since they are not significant enough to consider capitalizing and tracking as discrete capital assets, and items over \$5,000 will be capitalized into a new category of property, plant and equipment called Spare Parts. Most spare parts used by K-Bro are specific to an item of property, plant and equipment, and therefore would meet the IFRS criteria to be recognized as property, plant and equipment. Depreciation of spare parts commences when they are available for use and are depreciated using the specific rate for the asset class to which the part is added when in use.

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

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

Restricted escrow funds paid as part of the acquisition described in note 4 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 has been reclassified as goodwill in the consolidated balance sheet as of March 31, 2010.

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

Notes to the Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2011 and 2010)

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

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

Optional Exemptions

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

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

19 Subsequent Events

Dividends

On April 15, 2011, the Board declared an eligible dividend of \$0.09167 per common share of the Corporation payable on May 13, 2011 payable to shareholders of record April 30, 2011. On May 16, 2011, the Board declared an eligible dividend of \$0.09167 per common share of the Corporation payable on June 15, 2011 payable to shareholders of record May 31, 2011.

Long-Term Incentive Plan

The Board of Directors, upon the recommendation of the Compensation, Nominating and Corporate Governance Committee (the "CNCG Committee"), will seek approval of a new long-term incentive plan ("New LTIP"). The proposed New LTIP will provide for the issuance from treasury of Common Shares to be held in trust for the benefit of participants in the plan at the discretion of the CNCG Committee. Participants under the New LTIP may include Directors, officers or senior management employees of K-Bro.

Under the New LTIP, the CNCG Committee intends to grant awards annually in respect of the prior fiscal year to such eligible participants as it, in its sole discretion, determines. The required number of Common Shares (net of withholding obligations) will be issued from treasury to be held in trust by the LTIP trustee pursuant to the terms of the New LTIP.

Common Shares reserved for issuance to insiders of the Corporation and its subsidiaries pursuant to the New LTIP, together with the number of Common Shares reserved for issuance to such persons pursuant to any other compensation arrangements, shall not exceed 10% of the then outstanding Common Shares; and the number of Common Shares issued to insiders of the Corporation and its subsidiaries pursuant to New LTIP, together with the number of Common Shares issued to such persons pursuant to other compensation arrangements of the Corporation, within any one-year period, shall not exceed 10% of the then outstanding Common Shares. The proposed New LTIP provides that a maximum of 700,000 Common Shares will be authorized for issuance under the New LTIP (such number representing approximately 10% of Common Shares issued and outstanding as at the date hereof).

To be effective, the New LTIP must be approved by a majority of the votes cast by Shareholders, present in person or represented by proxy, at the annual general and special meeting scheduled for June 16, 2011. The New LTIP is also subject to the approval of the TSX. The TSX has conditionally approved the New LTIP and the listing of the Common Shares reserved for issuance under the New LTIP, subject to the receipt of shareholder approval.