



K-BRO LINEN INCOME FUND

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 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 | inquiries@k-brolinen.com

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of K-Bro Linen Income Fund (the "Fund") and the accompanying financial information presented on behalf of K-Bro Linen Inc. (the "Corporation"), the successor entity to the Fund are the responsibility of management of the Corporation and have been approved by its Board of Directors. In management's opinion, the consolidated financial statements have been prepared within reasonable limits of materiality in accordance with Canadian generally accepted accounting principles. The preparation of financial statements necessarily requires judgment and estimation when events affecting the current year depend on determinations to be made in the future. Management has exercised careful judgment where estimates were required, and these consolidated financial statements reflect all information available to March 14, 2011.

To discharge its responsibility for financial reporting, management maintains systems of internal controls designed to provide reasonable assurance that the Corporation's assets are safeguarded, that transactions are properly authorized and that reliable financial information is relevant, accurate and available on a timely basis. The internal control systems are monitored and evaluated by management, which are regularly reported on to the Audit Committee of the Board of Directors.

The consolidated financial statements have been examined by PricewaterhouseCoopers LLP, the Corporation's external auditors. The external auditors are responsible for examining the consolidated financial statements and expressing their opinion on the fairness of the consolidated financial statements in accordance with Canadian generally accepted accounting principles. The auditors' report outlines the scope of their audit examination and states their opinion.

The Board of Directors, through the Audit Committee, is responsible for oversight of management's fulfilment of its responsibilities for financial reporting and internal controls. The Audit Committee, which is comprised solely of independent directors, meets regularly with management and the external auditors to satisfy itself that each group is discharging its responsibilities with respect to internal controls and financial reporting. The Audit Committee reviews the consolidated financial statements and recommends their approval to the Board of Directors. The external auditors have full and open access to the Audit Committee, with and without the presence of management. The Audit Committee also recommends to the Board of Directors for nomination, the firm of external auditors, and such nomination on approval of the Board of Directors shall be confirmed annually by the shareholders of the Corporation.

On behalf of management,



Linda McCurdy
President and Chief Executive Officer



Christopher Burrows
Vice President and Chief Financial Officer

March 9, 2011

Independent Auditor's Report

To the Shareholders of K-Bro Linen Inc.
(former Unitholders of K-Bro Linen Income Fund)

We have audited the accompanying consolidated financial statements of K-Bro Linen Income Fund which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of earnings and deficit, comprehensive income and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of K-Bro Linen Income Fund as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Consolidated Balance Sheets

(thousands of Canadian dollars)

As at December 31

	2010	2009
ASSETS		
Current assets		
Accounts receivable	\$ 13,352	\$ 9,451
Linen in service	7,933	7,305
Prepaid expenses and deposits	1,277	1,213
Future income taxes (note 8)	-	449
	22,562	18,418
Restricted escrow funds (note 2)	250	-
Property, plant and equipment (note 3)	34,070	33,583
Intangible assets (note 4)	15,199	14,595
Goodwill (note 2)	20,048	16,220
	\$ 92,129	\$ 82,816
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 13,326	\$ 9,880
Distribution payable to unitholders	-	642
Future income taxes (note 8)	98	-
	13,424	10,522
Long-term debt (note 5)	10,763	4,043
Unamortized lease inducements (note 7)	566	611
Future income taxes (note 8)	3,667	3,847
	28,420	19,023
UNITHOLDERS' EQUITY		
Exchangeable shares (note 10b)	724	724
Fund units (note 10b)	70,676	70,676
Fund units held in trust by LTIP (note 11)	(1,601)	(834)
Contributed surplus (note 10c)	1,141	572
Deficit	(7,231)	(7,310)
Accumulated other comprehensive loss (note 10d)	-	(35)
	63,709	63,793
Contingencies and commitments (note 9)	\$ 92,129	\$ 82,816

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

Approved on behalf of the Fund

(signed) "Ross Smith", Chair

(signed) "Matthew Hills", Director

Consolidated Statements of Earnings and Deficit

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

Year ended December 31

	2010	2009
Revenue	\$ 104,051	\$ 87,533
Expenses		
Wages and benefits	47,848	39,433
Linen	10,603	10,192
Utilities	8,361	6,273
Delivery	3,993	3,280
Occupancy costs	3,762	2,991
Materials and supplies	3,492	3,015
Repairs and maintenance	3,416	3,177
Corporate	5,406	3,626
	86,881	71,987
Earnings before the undernoted	17,170	15,546
Other expenses		
Depreciation of property, plant and equipment	(5,666)	(5,347)
Amortization of intangible assets	(2,540)	(2,157)
Financial charges (note 6)	(643)	(311)
Loss on disposal of property, plant and equipment	(187)	(54)
	(9,036)	(7,869)
Earnings before income taxes	8,134	7,677
Income tax (expense) recovery (note 8)	(349)	125
Net earnings	7,785	7,802
Deficit - beginning of year, as previously stated	(7,310)	(7,310)
Adjustment due to accounting policy change	-	(96)
Deficit - beginning of year, as restated	(7,310)	(7,406)
Distributions to unitholders (note 12)	(7,706)	(7,706)
Deficit - end of year	\$ (7,231)	\$ (7,310)
Net earnings per unit:		
Basic	\$ 1.13	\$ 1.12
Diluted	\$ 1.11	\$ 1.11
Weighted average number of units outstanding (note 10e):		
Basic	6,905,369	6,946,495
Diluted	6,992,400	6,999,719

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

Consolidated Statements of Comprehensive Income

(thousands of Canadian dollars)

Year ended December 31

	2010	2009
Net earnings	\$ 7,785	\$ 7,802
Other comprehensive income for the year		
Gain on derivative financial instruments designated as cash flow hedges, net of future income taxes of \$19 (2009 - \$30)	50	77
Comprehensive income	\$ 7,835	\$ 7,879

Consolidated Statements of Cash Flow

(thousands of Canadian dollars)

Year ended December 31

	2010	2009
OPERATING ACTIVITIES		
Net earnings	\$ 7,785	\$ 7,802
Depreciation of property, plant and equipment	5,666	5,347
Amortization of intangible assets	2,540	2,157
Amortization of lease inducements (note 7)	(45)	(56)
Loss on disposal of property, plant and equipment	187	54
Settlement of interest rate swaps	(15)	-
Future income taxes	349	(125)
	16,467	15,179
Change in non-cash balances relating to operations (note 13)	638	(3,319)
Cash provided by operating activities	17,105	11,860
FINANCING ACTIVITIES		
Proceeds from revolving credit facility	12,924	-
Repayments to revolving credit facility	(6,204)	(18)
Distributions paid to unitholders	(8,348)	(7,706)
Cash used in financing activities	(1,628)	(7,724)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,330)	(3,479)
Proceeds from disposal of property, plant and equipment	21	22
Purchase of intangible assets	(244)	(679)
Acquisition of business (note 2)	(12,674)	-
Funds transferred to escrow	(250)	-
Cash used in investing activities	(15,477)	(4,136)
Change in cash during the year	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -
Supplementary cash flow information		
Interest paid	\$ 438	\$ 317

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

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

K-Bro Linen Income Fund (the "Fund") was established as a limited purpose trust under the laws of Alberta pursuant to an Amended and Restated Fund Declaration of Trust dated February 3, 2005. The Fund was created for the purpose of acquiring, directly or indirectly, all of the issued and outstanding securities of K-Bro Linen Systems Inc. K-Bro Linen Systems Inc. provides a range of services to healthcare institutions, hotels and other commercial accounts that include the processing, management and distribution of general linen and operating room linen. The Fund's units traded on the Toronto Stock Exchange ("TSX") under the symbol "KBL.un" until January 5, 2011 (note 18(a)).

1 Significant accounting policies

These consolidated financial statements are presented in Canadian dollars, except where otherwise indicated, and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and reflect the following principles:

a) Principles of Consolidation

These consolidated financial statements include the Fund, all of its wholly owned subsidiary companies including K-Bro Linen Systems Inc. and the LTIP Trust, a variable interest entity (note 11). All intercompany balances and transactions have been eliminated upon consolidation.

b) Use of Estimates

Consolidated financial statements prepared in accordance with GAAP require management to 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 could differ from these estimates. Uncertainty is inherent in estimating the useful life of property and equipment and corresponding depreciation rates, the useful life of intangible assets and corresponding amortization rates, allowances for doubtful accounts receivable, future income taxes, provision for legal contingencies, volume rebates and the fair value of goodwill and financial instruments. The impact on the consolidated financial statements of future changes in such estimates could be material.

c) Linen in Service

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

d) Revenue Recognition

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

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

e) Property, Plant and Equipment

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

Asset	Rate
Building	5% Declining balance
Laundry equipment	15% Declining balance
Office equipment	20% Declining balance
Delivery equipment	20% Declining balance
Computer hardware	30% Declining balance
Leasehold improvements	Straight-line over lease

f) 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.

g) Impairment of Long-Lived Assets

The Fund tests for the impairment of long-lived assets held for use through a two-step process, with the first step determining when an impairment is recognized and the second step measuring the amount of the impairment. The Fund assesses impairment of its long-lived assets when events or changes in circumstances cause the carrying value of an asset to exceed the total undiscounted cash flows expected from its use and eventual disposition. An impairment loss, if any, is determined as the excess of the carrying value of the asset over its fair value.

h) Future income taxes

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

The incorporated subsidiary of the Fund calculates income taxes using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using substantively enacted tax rates applicable to the period that the temporary differences are expected to reverse. Future income tax assets are only recognized to the extent that, in the opinion of management, they will more likely than not be realized. The effect on future income tax assets or liabilities is recognized in income in the period that the tax rate change occurs.

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

i) 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 fair values. Goodwill is allocated as of the date of the business combination. Goodwill is not amortized and 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. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to the excess.

j) Volume Rebates

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

k) Earnings Per Unit

Basic earnings per unit are computed by dividing net earnings by the weighted average number of fund units outstanding during each reporting period. Units issued during the year and units reacquired during the year are weighted for the portion of the year that they were outstanding. Diluted earnings per unit are computed using the treasury stock method, which assumes that any unrecognized unit based compensation is applied to purchase units at the average price during the year. The difference between the number of units obtainable under this computation, on a weighted average basis, is added to the number of units outstanding.

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

l) Employee Future Benefits

The Fund and its subsidiaries have a Registered Retirement Savings Plan. The Fund contributes to the plan based on the amount of employee contributions. The Fund accounts for contributions as an expense in the year that they are made. The Fund does not provide other post employment or post-retirement benefits.

m) 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 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 Fund 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
Distribution payable	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

2 Business Acquisition

On January 29, 2010, the Fund completed the acquisition of the laundry business, linen, certain working capital and equipment of a processing 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. 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	\$ 12,924
<i>Less:</i>	
Restricted escrow funds	(250)
Net cash consideration	\$ 12,674
<i>Net assets acquired:</i>	
Working capital	\$ 1,228
Linen in service	500
Property, plant & equipment	4,218
Intangible assets	2,900
Goodwill	3,828
	\$ 12,674

During the fourth quarter, the Fund self-assessed provincial sales taxes relating to the acquired assets which resulted in an increase to the purchase price of \$312. This amount has been allocated to the property, plant and equipment.

Of the cash consideration payable, \$250 was deposited with an agent to be held in escrow and released to the vendor upon the determination that certain representations and warranties are satisfied in the twelve-month period subsequent to the acquisition. On January 31, 2011 the full amount of the escrow account was released to the vendor and consequently the amount of goodwill will be adjusted by the same amount during fiscal 2011.

Intangible assets acquired are made up of customer contracts along with related relationships and customer lists.

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

3 Property, Plant and Equipment

December 31, 2010	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 70	\$ -	\$ 70
Building	555	75	480
Laundry equipment	42,842	17,543	25,299
Office equipment	537	250	287
Delivery equipment	1,025	302	723
Computer hardware	1,436	958	478
Leasehold improvements	11,240	4,507	6,733
	\$ 57,705	\$ 23,635	\$ 34,070

December 31, 2009	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 70	\$ -	\$ 70
Building	550	51	499
Laundry equipment	37,504	13,655	23,849
Office equipment	692	242	450
Delivery equipment	421	219	202
Computer hardware	1,337	801	536
Leasehold improvements	11,131	3,154	7,977
	\$ 51,705	\$ 18,122	\$ 33,583

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

4 Intangible Assets

December 31, 2010	Cost	Accumulated Amortization	Net Book Value
Healthcare contracts	\$ 15,700	\$ 6,675	\$ 9,025
Operating room contracts	3,500	2,889	611
Hospitality contracts	7,597	2,778	4,819
Computer software	923	179	744
	\$ 27,720	\$ 12,521	\$ 15,199

December 31, 2009	Cost	Accumulated Amortization	Net Book Value
Healthcare contracts	\$ 15,700	\$ 5,547	\$ 10,153
Operating room contracts	3,500	2,401	1,099
Hospitality contracts	4,697	2,033	2,664
Computer software	679	-	679
	\$ 24,576	\$ 9,981	\$ 14,595

5 Long-Term Debt

	2010	2009
Bankers' Acceptances, interest at 30 day BA rates plus 2.5% depending on certain financial ratios, due January 20, 2011, renewable monthly until June 30, 2012	\$ 4,000	\$ 4,000
Prime rate loan, secured with 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	6,763	43
	\$ 10,763	\$ 4,043

The Fund has a revolving credit facility of up to \$40,000 of which \$11,013 is drawn (including letters of credit totalling \$250 per note 9a). 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.

Drawings under the revolving credit facility are available by way of Bankers' Acceptances, Canadian prime rate loans, letters of credit or standby letters of guarantee. Drawings under the revolving credit facility bear interest at a floating rate, plus an applicable margin based on certain financial performance ratios. At December 31, 2010 for Bankers' Acceptances the margin ranged from 2.50% to 3.50% and for Canadian prime rate loans, the margin ranged from 1.00% to 2.00%.

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

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

6 Financial Charges

	2010	2009
Interest on long-term debt	\$ 436	\$ 317
Other charges, net	207	(6)
	\$ 643	\$ 311

7 Unamortized Lease Inducements

The Fund 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:

	2010	2009
Lease inducements received	\$ 699	\$ 699
Accumulated amortization, net	(88)	(43)
	611	656
Less current portion, included in accrued liabilities	(45)	(45)
	\$ 566	\$ 611

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

8 Income Taxes

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

	2010	2009
Earnings before income taxes	\$ 8,134	\$ 7,677
Non-deductible expenses	193	130
Income subject to tax	8,327	7,807
Income tax at statutory rate of 28.7% (2009 - 30.1%)	2,392	2,349
Impact of substantively enacted rates and other	104	(226)
Tax on income of the Fund allocated to unitholders	(2,147)	(2,248)
Income tax expense (recovery)	\$ 349	\$ (125)

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

	2010	2009
Linen in service	\$ (617)	\$ 108
Accounts payable and accrued liabilities	519	341
Current future income tax asset (liability)	(98)	449
Property, plant & equipment	(1,276)	(1,094)
Intangible assets & Goodwill	(2,631)	(3,146)
Offering costs & Other	240	393
Long-term future income tax liability	(3,667)	(3,847)
Future income tax liability, net	\$ (3,765)	\$ (3,398)

The amount of goodwill deductible for tax purposes is \$7,691 (2009 - \$3,862).

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

9 Contingencies and Commitments

a) Contingencies – Letters of credit

The Fund has a standby letter of credit issued as part of normal business operations in the amount of \$250 (2009 – \$250) which remains outstanding for the duration the Fund 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:

2011	\$	6,022
2012		4,319
2013		2,088
2014		1,429
2015		974
Subsequent		1,788
	\$	16,620

(ii) Linen purchase commitments

At December 31, 2010, the Fund was committed to linen expenditure obligations in the amount of \$2,206 (2009 – \$1,898).

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

10 Unitholders' Equity

a) Authorized

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

b) Issued and outstanding

	2010		2009	
	Units	Unit Capital	Units	Unit Capital
Fund units				
Balance, beginning of year	6,932,562	\$ 70,676	6,932,562	\$ 70,676
Issued/Cancelled	-	-	-	-
	6,932,562	\$ 70,676	6,932,562	\$ 70,676
Exchangeable shares				
Balance, beginning of year	72,411	\$ 724	72,411	\$ 724
Issued/Cancelled	-	-	-	-
	72,411	\$ 724	72,411	\$ 724
Total fund units and exchangeable shares issued	7,004,973		7,004,973	

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

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

c) Contributed surplus

	2010	2009
Balance, beginning of year	\$ 572	\$ 341
Net unit based compensation	1,196	650
Issuance of vested fund units to participants	(627)	(419)
Balance, end of year	\$ 1,141	\$ 572

d) Accumulated other comprehensive income

	2010	2009
Balance, beginning of year	\$ (35)	\$ (112)
Other comprehensive income during the year	50	77
Transfer of interest rate swap gains to earnings	(15)	-
Balance, end of year	\$ -	\$ (35)

e) Weighted average number of units outstanding

	2010	2009
Balance, beginning of year	7,004,973	7,004,973
Weighted average unvested units purchased for LTIP	(99,604)	(58,478)
Basic weighted average units for the year	6,905,369	6,946,495
Basic weighted average units for the year	6,905,369	6,946,495
Dilutive effect of LTIP units	87,031	53,224
Fully diluted weighted average units for the year	6,992,400	6,999,719

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

11 Long-Term Incentive Plan

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

	2010		2009	
	Unvested	Vested	Unvested	Vested
Balance, beginning of year	69,692	72,739	35,297	38,961
Issued during year	62,945	24,478	51,129	17,044
Vested during year	(18,563)	18,563	(16,734)	16,734
Balance, end of year	114,074	115,780	69,692	72,739

The cost of the 114,074 unvested units held in trust by the LTIP at December 31, 2010 (2009 - 69,692) was \$1,601 (2009 - \$834).

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

12 Distributions to Unitholders

The Fund's policy is to make distributions to unitholders of its available cash to the maximum extent possible consistent with good business practice considering requirements for capital expenditures, working capital, growth capital and other reserves considered advisable by the Trustees of the Fund. All such distributions are discretionary. Distributions are declared payable each month to the Fund unitholders and exchangeable shareholders on the last business day of each month and are paid by the 15th day of the following month. The final distribution of \$642 of the Fund prior to the Conversion (note 18(a)) was declared on December 22, 2010 and paid on December 31, 2010.

During the year ended December 31, 2010, the Fund declared total distributions to Unitholders and Exchangeable Shareholders of \$7,706 (2009 - \$7,706) or \$1.10 per unit (2009 - \$1.10).

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

13 Net Change in Non-Cash Working Capital

	2010	2009
Accounts receivable	\$ (2,437)	\$ (781)
Linen in service	(129)	451
Prepaid expenses and deposits	(64)	(589)
Accounts payable and accrued liabilities	3,268	(2,400)
	\$ 638	\$ (3,319)

14 Financial Instruments

a) Fair value

The Fund's financial instruments at December 31, 2010 consist of accounts receivable, accounts payable and accrued liabilities, distribution payable to unitholders and long-term debt. The carrying value of accounts receivable, accounts payable and accrued liabilities, and distribution payable to unitholders approximate fair value due to the immediate or short-term maturity of these financial instruments. The fair value of the Fund's interest-bearing debt approximates the respective carrying amount due to the floating rate nature of the debt.

b) Financial risk management

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

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

c) Price risk

(i) Currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Fund is not significantly exposed to foreign currency risk as all revenues are received in Canadian dollars and minimal expenses are incurred in foreign currencies. For large capital expenditure commitments denominated in a foreign currency, the Fund will enter into foreign exchange forward contracts if considered prudent to mitigate this risk. At December 31, 2010, no foreign exchange forward option contracts were outstanding.

(ii) Interest rate risk

The Fund is subject to interest rate risk as its credit facility bears interest at rates that depend on certain financial ratios of the Fund and vary in accordance with market interest rates. Based on the outstanding balance on the Fund's revolving credit facility, a 1% increase in the Canadian prime rate would result in an additional \$108 in annual interest expense. Management does not believe that the impact of interest rate fluctuations will be significant.

(iii) Other price risk

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

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

d) Credit risk

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

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

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

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

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

December 31, 2009	Gross	Allowance	Net
Current	\$ 6,224	\$ -	\$ 6,224
31-60 days	2,699	-	2,699
Greater than 60 days	570	42	528
	\$ 9,493	\$ 42	\$ 9,451

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

e) Liquidity risk

The Fund's accounts payable and distribution payable are due within one year.

The Fund has long-term debt with a maturity date of June 30, 2012 (see note 5). The degree to which the Fund is leveraged may reduce its ability to obtain additional financing for working capital and to finance investments to maintain and grow the current levels of cash flows from operations. The Fund may be unable to extend the maturity date of the credit facility.

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

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

f) Hedge accounting

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

There is no interest rate swap outstanding at December 31, 2010. Previously the Fund applied hedge accounting on the interest rate swap agreement outstanding at December 31, 2009.

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

15 Capital Management

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

The Fund'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 Fund's capital is composed of unitholders' equity and long-term debt. The Fund's primary uses of capital are to finance its growth strategies and capital expenditure programs. The Fund currently funds these requirements from internally-generated cash flows and interest bearing debt.

The Fund pays a distribution which reduces its ability to internally finance growth and expansion however the availability of the Fund's revolving line of credit provides sufficient access to capital to allow the Fund to take advantage of acquisition opportunities. The Fund has historically generated cash flow in excess of distributions and has used such excess to fund capital expenditures, working capital, growth capital and other reserves. The merits of the distribution are evaluated by the Fund's Board of Trustees from time to time.

The primary non-GAAP measures used by the Fund to monitor its financial leverage are its ratios of Funded Debt to EBITDA and Fixed Charge Coverage. EBITDA is not a measure that has any standardized meaning prescribed by Canadian GAAP and is considered to be a non-GAAP 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 Fund manages their Funded Debt to EBITDA ratio calculated as follows:

	2010	2009
Long-term debt, including current portion	\$ 10,763	\$ 4,043
Issued and outstanding letters of credit	250	250
Funded debt	11,013	4,293
Net earnings for the year	7,785	7,802
Add:		
Income tax expense (recovery)	349	(125)
Interest expense and financial charges, net	643	311
Depreciation of property, plant and equipment	5,666	5,347
Amortization of intangible assets	2,540	2,157
EBITDA	\$ 16,983	\$ 15,492
Funded debt to EBITDA	0.65x	0.28x

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

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

	2010	2009
EBITDA	\$ 16,983	\$ 15,492
Interest expense and financial charges, net	643	311
Distributions to unitholders	7,706	7,706
	\$ 8,349	\$ 8,017
Fixed charge coverage	2.03x	1.93x

16 Segmented Information

The Fund provides laundry and linen services to the healthcare and hospitality sectors through operating divisions in Vancouver, Victoria, Calgary, Edmonton, Toronto and Quebec 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 2) are reported commencing February 1, 2010.

	December 31, 2010		December 31, 2009	
Healthcare	\$ 71,455	68.7%	\$ 66,846	76.4%
Hospitality	32,596	31.3%	20,687	23.6%
	\$ 104,051	100.0%	\$ 87,533	100.0%

In Edmonton, the Fund is the significant supplier of laundry and linen services to the entity which manages all major healthcare facilities in the region. This contract 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 year ended December 31, 2010, the Fund has recorded revenue of \$52,887 (2009 – \$52,400) from these three major customers, representing 51% (2009 – 60%) of total revenue.

Notes to the Consolidated Financial Statements

(thousands of Canadian dollars, except where indicated, years ended December 31, 2010 and 2009)

17 Key Management Compensation

Key management includes the trustees and officers of the Fund. Compensation awarded to key management included:

	2010	2009
Salaries and retainer fees	\$ 1,507	\$ 1,492
Short-term bonus incentives	543	462
Post-employment benefits	43	41
Unit-based payments	1,220	760
	\$ 3,313	\$ 2,755

The Fund incurred expenses in the normal course of business for advisory consulting services provided by a Trustee primarily relating to acquisitions. The amounts charged are included as salaries and retainer fees and are recorded at their exchange amounts. For the year ended December 31, 2010, the Fund incurred such fees totalling \$138 (2009 – \$138).

18 Subsequent Events

a) Conversion from income trust to corporation

On December 6, 2010, unitholders of the Fund voted in favour of converting the Fund into a corporation, K-Bro Linen Inc. (the “Corporation”), pursuant to a plan of arrangement (the “Conversion”). The Conversion was completed January 1, 2011. As a result of the Conversion, unitholders of the Fund received one common share of the Corporation for each one unit of the Fund. Effective January 1, 2011 the Corporation holds all of the assets and liabilities, previously held, directly or indirectly, by the Fund. Accordingly, these consolidated financial statements reflect the Fund as a limited purpose trust as at and for the year ended December 31, 2010.

On January 6, 2011, the Corporation commenced trading on the TSX under the symbol “KBL”.

The Conversion will be accounted for as a continuity of interests of the Fund since there has been no change of control and given that the Corporation will continue to operate the business of the Fund.

b) Dividends

K-Bro’s Board of Directors declared an eligible dividend of \$0.09167 per common share of the Corporation payable on each of February 15, March 15, and April 15, 2011 to shareholders of record on January 31, February 28, and March 31, 2011, respectively.

19 Comparative Amounts

Certain comparative amounts have been reclassified to conform to the current year’s financial statement presentation.