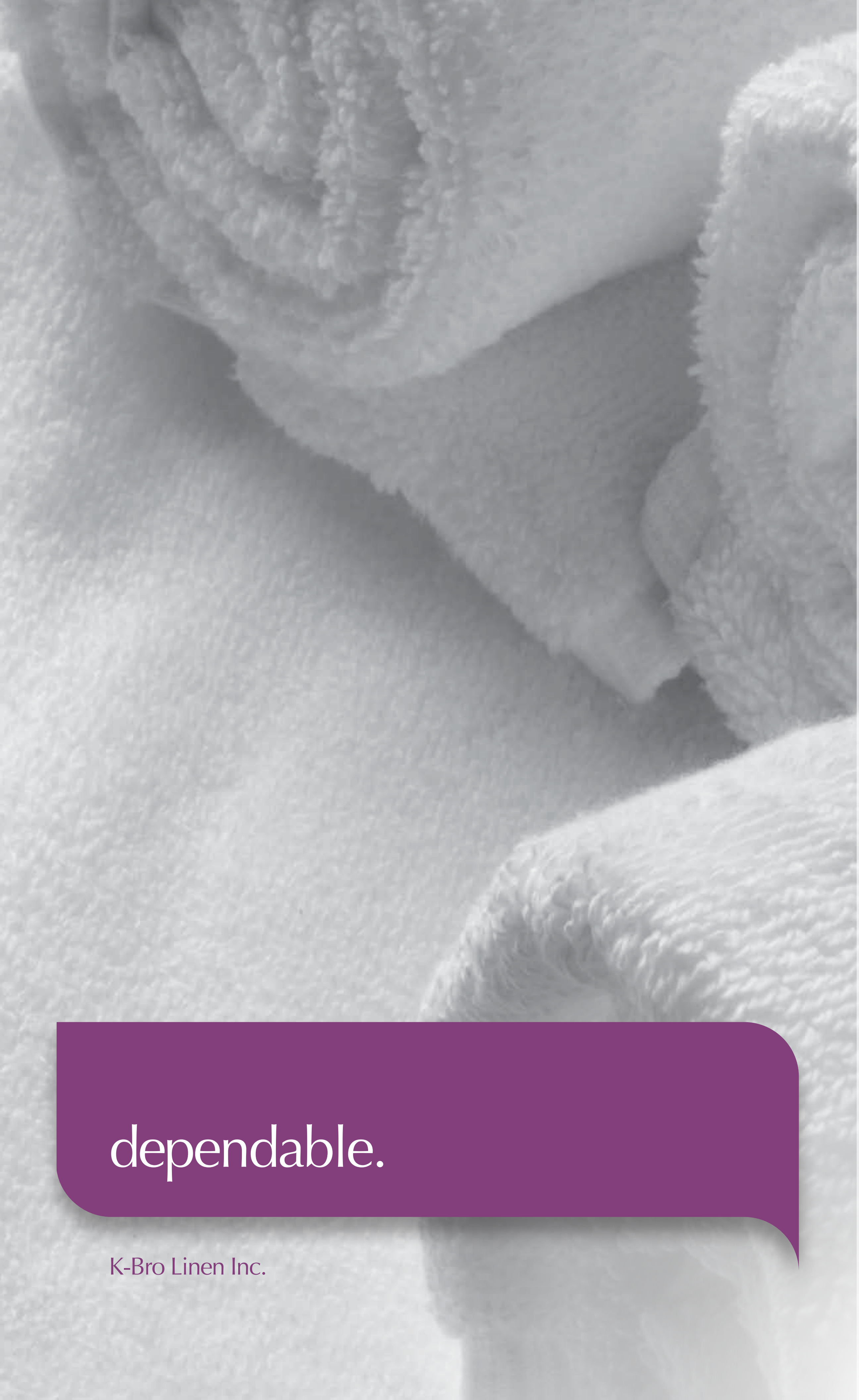


Annual Report 2011

dependable.

K-Bro Linen Inc.

K·BRO

CONTENTS

Plant Locations

K-Bro is the largest privately owned laundry and linen processor in Canada.

President's Message

I am very pleased to report on another year of strong results for K-Bro. A continued focus on our proven business model resulted in solid financial performance and further enhanced our industry-leading position. Thanks to the efforts of our entire team we achieved record revenues, earnings and cash flow, increased the number of clients and locations served, and acquired an eighth processing plant.

Fiscal 2011 was marked with a number of accomplishments for K-Bro, including:

- total shareholder return of 27.5%;
- revenue in excess of $116 million compared with $104 million in 2010;
- EBITDA of $19.9 million compared with $16.9 million in 2010;
- distributable cash of nearly $17 million compared with $15 million in 2010;
- dividends of $7.7 million or $1.10 per common share; and, a payout ratio of 45.9%; and,
- market capitalization of $155 million at December 31, 2011 and debt to total capitalization ratio of 0.09.

The benefits of being a national leader in the linen industry were evident again in 2011, as we successfully capitalized on strong fundamentals to deliver value for all of our stakeholders. This year we achieved the highest net earnings in our company's history, reaching $7.9 million in 2011 surpassing the previous record set in fiscal 2010 of $7 million. We achieved record results from both our healthcare and hospitality operations and completed another accretive acquisition in addition to expanding our capacity in existing plants. Although volatility in commodity prices impacted our business in 2011, we believe there are strong fundamentals that will continue to support our business in 2012. With a return to corporate travel and increasing household incomes, we expect a continuing increase in our hospitality business. In addition, increased spending on healthcare and growth in the number of beds in certain cities will enable us to realize growth in our healthcare business. As the largest national laundry and linen processor, K-Bro is well positioned to respond to all of these needs.

The scale and location of our assets provides K-Bro with key competitive advantages, which I believe will enable us to continue capturing value from all of our processing plants. We effectively leverage the scale and expertise of our management teams, while actively strengthening our position as the leading national processor through value-enhancing acquisitions.

Our relentless focus on execution supports all of our activities. Our continued commitment to a strategy of prudent growth has contributed significantly to our expanding earnings profile and one with greater earnings stability. Our record financial performance and other accomplishments in 2011 is truly a testament to our hardworking employees and their efforts in making K-Bro a success.

I strongly believe we have the right strategy and the right people to fully capitalize on the expanding healthcare and hospitality markets and to continue to deliver strong results to our shareholders.

Linda McCurdy
President and
Chief Executive Officer

Chairman's Message

Having served on our Board for many years, I am mindful of the core values that have been embedded in the Company through the decades — a relentless pursuit of innovation, improvement and a constant search for new ways to serve the changing needs of our customers.

We respect the heritage and principles that have created our success – this helps set the foundation on which we continue to build the business – but we also know that future success depends upon our desire and willingness to change.

For over 50 years, K-Bro's steadfast pursuit of excellence has been our trademark. Our focus for fiscal 2011 was no different, which resulted in an outstanding year for K-Bro. Our company turned in record earnings and delivered on value added growth that was consistent with our vision and strategy. None of this happens by chance as it takes the continued commitment from employees, management and the Board to make this happen. K-Bro's Board of Directors is committed to ensuring we stay on the right track to continue to achieve success.

Ross Smith
Chairman

We as Directors recognize that it is in times of economic volatility that our shareholders, employees and customers look for discipline and strong leadership in their company. It is part of our responsibility to remain focused on the conduct of the Corporation and that our management remains accountable from both a strategic and operational perspective. We do this by applying our experience and knowledge to provide guidance on corporate issues in a timely and effective manner, while maintaining the highest standards of integrity, transparency, and ethical conduct.

Sound governance is a principle that is both understood and embraced by our management team. The exceptional long-term performance and strong balance sheet of the Corporation are reflective of the committed working relationship between management and the Board. Our Board and management remain fully steadfast in search of growth, while continually evaluating returns to shareholders. In 2011, we approved numerous initiatives one of which was our accretive acquisition servicing the Montreal marketplace. The expansion into Montreal is a strategic investment and is expected to provide excellent returns. The review and approval for growth capital is, and will always be, approached with forethought, prudence and discipline by the Board.

We believe that a strong, positive corporate culture and focus on continuous improvement provides significant benefits to all stakeholders and is a key component of our success. As I reflect upon the achievements and hard work that resulted in K-Bro's record results in 2011, I cannot help but think about the commitment and dedication of all our employees, executive leadership, and Directors, all of whom I would personally like to thank for another outstanding year. I believe that our company will meet the opportunities and challenges in the coming years and will continue to strive to deliver superior performance for the benefit of our clientele, employees and shareholders.

Board of Directors

(Left to right)

Matt Hills, Ross Smith, Steve Matyas, Mike Percy, Linda McCurdy

General Managers

(Left to right)

Eric Ouellette, Stany Bergeron, Ken Chu, Jerry Ostrzyzek, Jeff Gannon, Kevin Stephenson, Maxim Lortie, Sean Curtis, Ron Graham

K-Bro is the largest privately owned laundry and linen processor in Canada. The Corporation operates eight facilities in seven cities, providing management services and laundry processing of hospitality, healthcare and other speciality linens. Our core values are central to our reputation, our quality is industry-leading, and our ability to deliver on commitments to customers is second to none. **We are dependable.**

K-Bro provides the vital products and services that help people heal, travel, live, and play. We're helping hospitals and extended care centres care for the young, old and vulnerable in environmentally responsible ways. Our responsibility also extends to ensuring that we have a safe culture at K-Bro. As our society grows, we integrate our commitment to responsibility into our new businesses, employees and the communities in which we live and work.

CUSTOMERS

In aggregate, our **8 plants** provided services to more than **1,500 customers** and employed more than **1,600 people**.

EMPLOYEES

BUANDERIE HMR INC.

les buanderies Dextraze

K-Bro provides services under three distinctive brands, including K-Bro Linen Systems Inc., Buanderie HMR and Les Buanderies Dextraze.

Total Assets

$91 million

Equity

$63 million

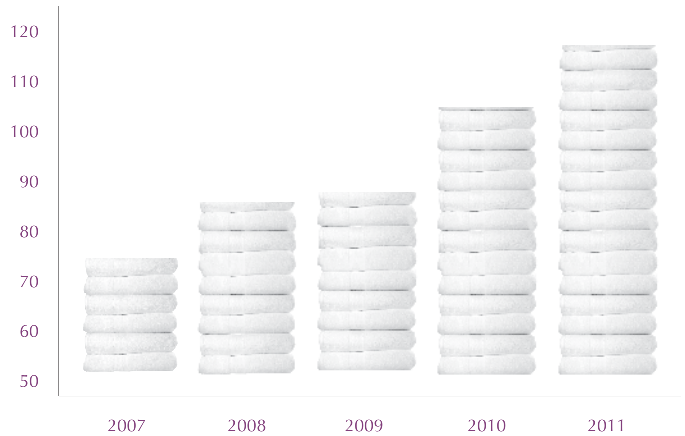
Market Capital

$155 million

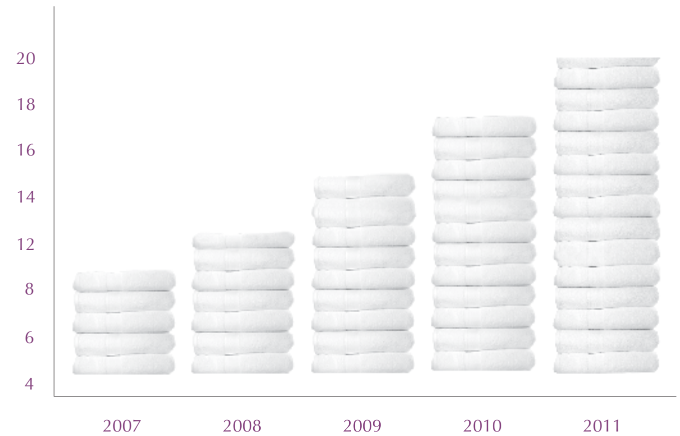
Financial Highlights

The following unaudited financial data has been derived from K-Bro's consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP. The informations set forth below should be read in conjunction with the management's Discussion & Analysis, Consolidated Financial Statements and Notes sections of this Annual Report.

REVENUE



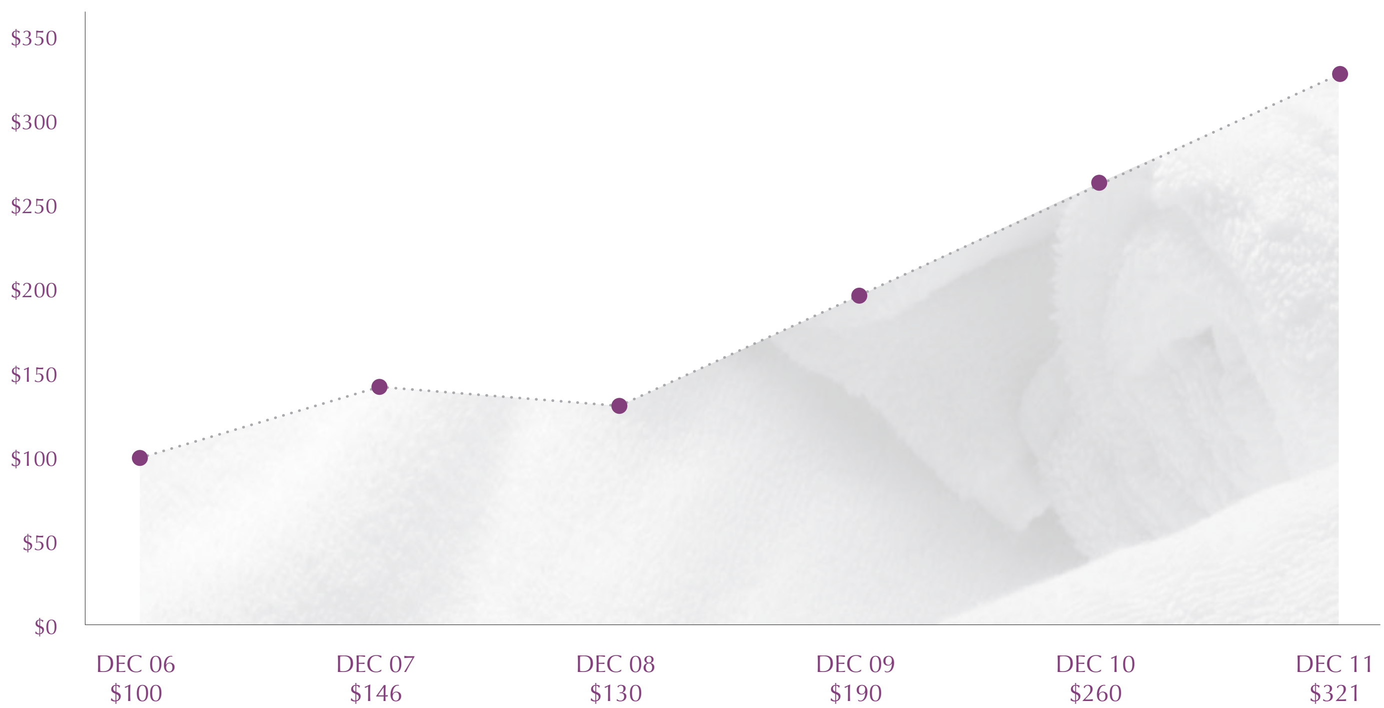
REVENUE (In millions of Canadian dollars) Years ended December 31



EBITDA (In millions of Canadian dollars) Years ended December 31

TOTAL SHAREHOLDER RETURN

(on a $100 investment in 2006)



In order to be successful, a company must have a vision. We continue to be committed to remaining as Canada's leading linen processing company. We focus on businesses that we know and understand – laundry and linen processing – in regions where we have an existing competitive advantage or can develop one. Long-term contracts supported by an experienced workforce and large scale assets are the priority – relationships coupled with assets that provide attractive and sustainable returns.

Over the past decade, K-Bro has made significant investments in high quality plants, investments that have allowed the company to move forward in achieving its vision. Today, we play a significant role in the provision of high quality healthcare and also in business and leisure travel markets.

We are the largest linen processing company in Canada.

We are dependable.

In aggregate, our eight plants provided services to more than 1,500 customers and employed almost 1,600 employees in 2011. At December 31, 2011, total assets were $91 million, equity was $63 million and market capitalization was $155 million.

Diversified and integrated services – we provide critical services, support and management of linen requirements that address each and every one of our customers' needs.

Strategically positioned – K-Bro has 8 plants located in 7 different cities, which ensures our ability to provide uninterrupted service in the wake of disasters, pandemics or other adversity. It further allows us to identify experienced team members that can assist sister plants with surges in volume or challenging conditions.

Long-term stable contracts – by anticipating our customers' needs, delivering consistently dependable service and acting with integrity, K-Bro has developed long-term relationships with our customers.

Committed workforce – our corporate culture enables us to attract and retain laundry staff and our national presence provides opportunities for career advancement. Five members of our senior management team commenced their careers with K-Bro and have an average tenure in excess of 20 years.

Single source for customers – K-Bro is able to deliver total linen management services, including laundering, drying, folding, quota cart development, sterilization, and more that focuses on efficiencies and cost savings. We are one of the largest consumers of linens and textiles in Canada. We leverage our market position to drive savings for our customers'. K-Bro works in partnership with our clients to reduce the consumption volume of linen.

One of our key strategies for growth is to pursue opportunities for expansion through acquisition. We follow a strict set of criteria when evaluating another organization's potential, examining every facet of a target company – does it open up a new or strategically placed geographic market or market niche for us? Is there a potential for growth in the market it serves? Will we be able to build on relationships the company already has in place? Can we build on an already-existing base of business? Does it enhance our resources overall?

Taking advantage of relationships already in place includes maintaining the existing labour and management of a company. The ability and commitment demonstrated by staff members is a factor in our decision-making process for acquisitions.

The bottom line is that we want profitable, dependable operations where we can bring our expertise and resources to grow the existing base of business. We found these qualities in our new Montreal plant. We completed the acquisition of the business, linen, and equipment in June 2011. The acquisition added new markets for us, including Montreal, Old Montreal and the east valley cities of Bromont and Granby.

The operations of the new plant complimented our current business base. Large customers who we served in other regions, such as Delta Hotels and Resorts, were being served in Calgary, Edmonton and Vancouver.

This acquisition has been successfully integrated into our group and has been functioning well since the acquisition. The operations are meeting financial targets, and we are demonstrating signs of growth. Our purchase of a viable company with capable management and staff members and growth potential has benefited K-Bro and added value to our organization. We continue to review and pursue accretive opportunities in new markets and we believe that such opportunities may be available in the future to further add to our growth.

There are more ways to gain entry into new markets than acquisition. In our industry, we're dependent on our reputation, resources, and track record as we develop relationships with potential and new clients and compete for contracts. These factors are also critical in maintaining stable, responsive, and loyal relationships with our existing customers.

In order to meet our goal of being the absolute best linen services supplier in the country, we continually review our service offerings, adding to our menu and providing more comprehensive service capabilities than other linen companies.

Sean Curtis

Senior Vice-President and General Manager

At K-Bro, we innovate and develop new processes and systems, and further refine business delivery and practices.

In 2011, excelled at discovering and winning new opportunities and clients, building on the successes we've had in our decades of experience as leaders in our sector. We obtained significant new business from our competitors in important locations. In British Columbia, we added eight major hospitality customers to our base, four in Quebec, and in Alberta we added one additional hotelier and extended agreements with seven more – our new clients include some of the finest hotels in the area.

K-Bro also won several new long-term contracts and extended past contracts:

- In Edmonton, we negotiated a new 10-year contract with Alberta Health Services for laundry and linen processing for the Greater Edmonton area;
- In Toronto, we extended our relationship with the Hospital for Sick Children and the Durham Health Region;
- In Saskatoon, we earned the healthcare linen business of Saskatoon Health Region under a 1-year agreement.

Each of these sales was a victory for the entire K-Bro team and a reflection of the company as a whole, rather than any individual. The qualities that contribute to our success are the same ones that define us as leaders in customer service – an impeccable and dependable record, comprehensive service program, financial stability, competitive costs, experience in transitioning large accounts, and having the resources to support growth, including the ability to purchase linen and equipment in anticipation of higher volume.

Our policy at K-Bro has always been one of proactive response. In order to meet our goal of being the absolute best linen services supplier in the country, we continually review our service offerings, adding to our menu and providing more comprehensive service capabilities than other linen companies. We watch our industry and think ahead to strategically address the future needs of the markets we serve. Our established relationships and experience contribute to our thinking – our clients talk to us not only about their present needs, but about the directions they see themselves going in. They depend on the knowledge we've accumulated over our history.

K-Bro's value-added services provide a 'one-stop shop' for linen services, and currently include:

- Exchange cart preparation
- Delivery of carts to user wards and departments
- Reusable OR linen and pack rental (KOR services)
- Distribution and control of uniforms
- Personal clothing services
- Customer service programs
- Linen purchase and supply
- Linen inventory management reports and services
- sterilization of operating room linen packs

At K-Bro, we innovate and develop new processes and systems, and further refine business delivery and practices. When we launched our company on the public markets, we stated that we were ready for whatever lay ahead of us. As the events of the next six years unfolded, our readiness contributed to our success in dependability and growth. The hands-on nature of our management team and established relationships with open lines of communication with our customers is the very source of our advantage. **We are dependable**.

The following selected unaudited financial data has been derived from K-Bro's consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP. The informations set forth below should be read in conjunction with the Management's Discussion & Analysis, Consolidated Financial Statements and Notes sections of this Annual Report.

($ Thousands, except per share data and percentages)	Years ended December 31[1]					
	2011	2010	2009	2008	2007	2006
INCOME STATEMENT DATA						
Revenue	116,859	104,051	87,533	85,113	74,101	65,108
EBITDA	19,946	16,877	15,547	12,395	9,188	8,335
EBITDA *(%)*	17.1	16.2	17.8	14.6	12.4	12.8
Net earnings	7,928	7,116	7,802	4,722	4,818	3,878
Net earnings per Share *(Diluted)*	1.14	0.99	1.11	0.70	0.71	0.74
BALANCE SHEET DATA						
Working capital	7,245	8,664	7,896	3,533	5,494	7,220
Long-term debt	6,095	10,763	4,043	4,061	16,627	9,278
OTHER FINANCIAL DATA						
Distributable cash per Unit	2.40	2.15	1.99	1.63	1.40	1.39
Payout ratio *(%)*	49.5	51.4	55.1	68.4	78.5	79.0
Price to earnings multiple *(12 month trailing)*	21.4	18.5	12.1	13.9	18.0	14.8
Price to EBITDA multiple *(12 month trailing)*	7.8	7.6	6.1	5.2	8.1	6.5
Return on shareholders' equity *(ROE) (%)*	12.6	11.4	12.0	6.1	8.5	7.7
Total shareholder return, YTD *(%)*	27.5	43.9	50.0	-19.8	33.0	-5.3
Total shareholder return, 5 yrs *(%)*	121.1	146.7	87.5	38.9	65.6	29.4
Market capitalization	155,821	126,866	93,451	67,385	73,168	59,500
Unit price:						
High	22.98	19.29	13.84	13.65	14.75	15.91
Low	17.28	13.02	9.70	8.50	10.75	10.00
Close	22.24	18.30	13.48	9.72	13.49	10.97

[1] K-Bro's IFRS transition date was January 1, 2010; accordingly 2010 figures have been restated; earlier fiscal periods are presented under Canadian GAAP.

As events have unfolded since entering the public market, our readiness has contributed to our success in dependability and growth.

Management's Discussion and Analysis

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of K-Bro Linen Inc. and the accompanying financial information presented 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 International Financial Reporting Standards. 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 13, 2012.

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 International Financial Reporting Standards. 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,

Christopher Burrows
Vice-President and
Chief Financial Officer

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

The following Management's Discussion and Analysis ("MD&A") is supplemental to, and should be read in conjunction with, audited Consolidated Financial Statements for the years ended December 31, 2011 and 2010, and the unaudited interim consolidated financial statements for the periods ended March 31, 2011, June 30, 2011 and September 30, 2011. All references to "K-Bro", "the Corporation", "us", "our" or "we" in this MD&A includes K-Bro Linen Inc. and its wholly owned subsidiaries, and, as applicable, its predecessor, K-Bro Linen Income Fund (the "Fund"), including the operations controlled and consolidated by them, unless otherwise indicated. All references to "Management" refer to directors and senior officers of the Corporation.

Management is responsible for the information contained in this MD&A and its consistency with information presented to the Audit Committee and Board of Directors. All information in this document has been reviewed and approved by the Audit Committee and Board of Directors. This review was performed by management with information available as of March 13, 2012.

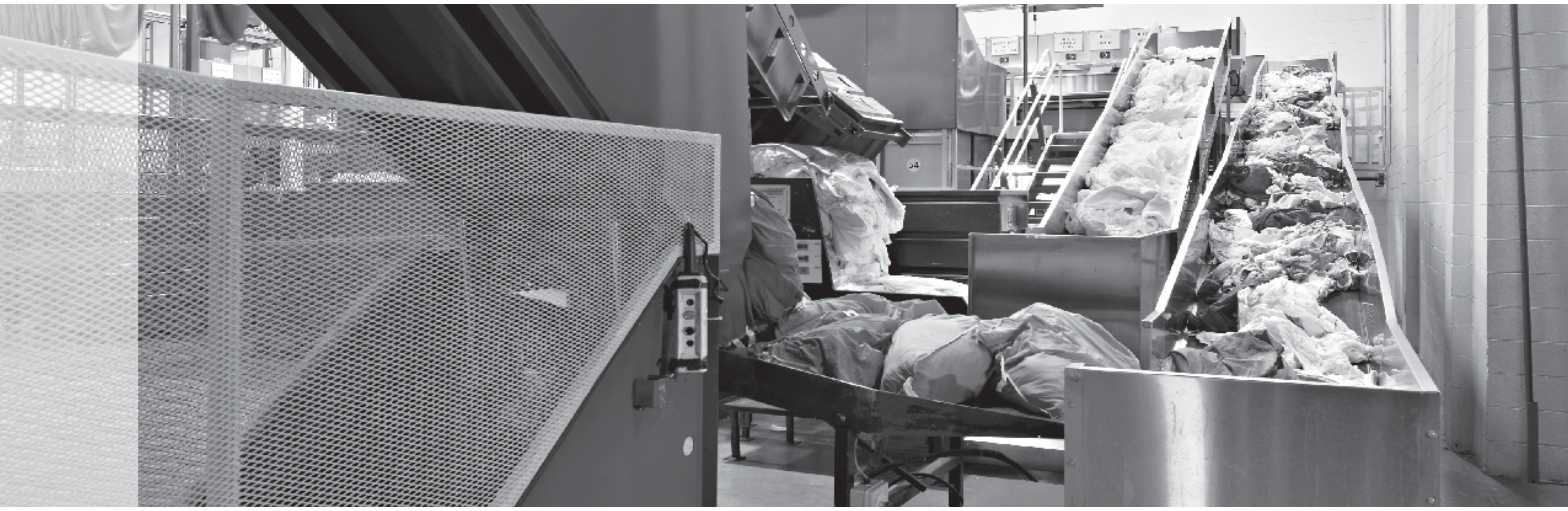
In the interest of providing current Shareholders and potential investors with information regarding current results and future prospects, our public communications often include written or verbal forward-looking statements. Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions and courses of action, and include future-oriented financial information.

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

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

All forward-looking information in this MD&A is qualified by these cautionary statements. Forward-looking information in this MD&A is presented only as of the date made. Except as required by law, the Corporation disclaims any intention or obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances.

This MD&A also makes reference to certain measures in this document that do not have any standardized meaning as prescribed by IFRS and, therefore, are considered additional GAAP measures. These measures may not be comparable to similar measures presented by other issuers. Please see "Terminology" for further discussion.



MD&A TABLE OF CONTENTS

INTRODUCTION

Core Business

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

Industry and Market

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

Our partnerships with healthcare institutions and hospitality clients across Canada demonstrate K-Bro's commitment to build relationships that foster continuous improvement, provide flexibility to adjust to changing circumstances as required and which incorporate incentives, penalties and sharing of risks and rewards as circumstances warrant. As a result, clients across the country have entered into long-term relationships with us, with most having renewed their contracts several times.

In this competitive industry, K Bro is distinctive in Canada in its ability to deliver products and services that provide value to our customers. Management believes that the healthcare and hospitality sectors of the laundry and linen services industry represent a stable base of annual recurring business with opportunities for growth as additional healthcare beds and funds are made available to meet the needs of an aging demographic.

Industry Characteristics and Trends

Management believes that the industry in which K-Bro operates exhibits the following characteristics and trends:

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

Outsourcing and Privatization – Healthcare institutions and regional authorities are facing funding pressures and must continually evaluate the allocation of scarce resources. Consequently there are often advantages to healthcare institutions in outsourcing the processing of healthcare linen to private sector laundry companies such as K-Bro because of the economies of scale and significant management expertise that can be provided on a more comprehensive and cost-effective basis than customers can achieve in operating their own laundry facilities.

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

STRATEGY

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

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

Extend Core Services To New Markets – Management has demonstrated its ability to successfully expand K-Bro's business into new markets from its established bases. Since 2005, K-Bro has entered four new geographic markets across Canada. These new markets have contributed significantly to K-Bro's growth. Management believes that new outsourcing opportunities will continue to arise in the near to medium term and that K-Bro is well-positioned for continued growth, particularly as healthcare and hospitality institutions continue to increase their focus on core services and confront pressures for capital and cost savings.

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

STRATEGY (continued)

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

FOURTH QUARTER OVERVIEW

In the fourth quarter of 2011, revenue was $29.2 million which was 9.1% higher than the $26.7 million generated in the comparative quarter of 2010. This year-over-year increase was due to a combination of the acquisition of the plant in Montréal, the full impact of increased volumes from the Tilbury laundry contracts and organic growth from new volume at existing customers, as well as price increases on existing customers, across the remainder of the plants. EBITDA increased from $4.0 million in Q4, 2010 to $4.6 million in Q4, 2011, as the result of the combination of profits from the newly acquired Montreal plant, volume growth from the remaining plants, and effective cost control efforts.

Indirect and administrative expenses amounted to $1.4 million in the quarter, compared to $1.8 million in the comparable period of 2010. The Q4, 2010, costs included professional fees relating to the conversion to a corporation from an income trust structure. Indirect and administrative costs increased as a result of professional fees associated with the conversion.

SELECTED ANNUAL FINANCIAL INFORMATION

($ Thousands, except share and per share amounts)	**2011**	2010	2009[1]
Revenue	116,859	104,051	87,533
Earnings before income taxes	10,888	7,116	7,677
Net earnings	7,928	6,953	7,802
Net earnings per share:			
Basic	1.15	1.01	1.12
Diluted	1.14	0.99	1.11
Total assets	91,425	90,679	82,816
Long-term debt	6,095	10,763	4,043
Dividends declared to Shareholders	7,706	7,706	7,706
Dividends declared to Shareholders per share	1.100	1.100	1.100
Number of shares outstanding:			
Basic	6,918,955	6,905,369	6,946,495
Diluted	6,980,489	6,992,400	6,999,719

[1] K-Bro's IFRS transition date was January 1, 2010, accordingly 2010 comparative figures have been restated; 2009 comparative information has not been restated and is presented under Canadian GAAP.

SUMMARY OF 2011 RESULTS AND KEY EVENTS

Financial Growth

K-Bro delivered strong financial results in 2011 driven by the operating results from all eight of its processing plants. Net earnings were $7.9 million or $1.15 per share. Cash flow from operating activities was $18.9 million and distributable cash flow was $16.8 million. Revenue increased in fiscal 2011 to $116.9 million or by 12.3% compared to 2010. This growth in the year is due to the acquisition of the new plant in Montréal, increased volumes from the Tilbury laundry contract and growth in the remainder of the plants. EBITDA (see *Terminology*) increased in the year to $19.9 million from $16.9 million in 2010, which is an increase of 18.2% The EBITDA margin increased to 17.1% in 2011 compared 16.2% in 2010. The increase in margin is driven by decreased corporate costs due to a reduction in professional fees compared to 2010 which included professional fees relating to the conversion from an income trust to a corporation. Additionally the margin increase is related to favorable energy costs relating to the floating component of forward contracts.

Acquisition of Facility in Montréal, Québec

On June 30, 2011, the Corporation acquired all of the assets and operations of *Les Buanderies Pierre R. Dextraze Inc.* ("Dextraze") for cash consideration of $4.3 million, subject to closing adjustments, including an amount contingent upon achieving certain EBITDA targets. Dextraze is a commercial/industrial laundry which provides services to the hospitality industry in the Montréal area. It is one of the leading processors in Québec and currently operates 7 days per week with over 80 employees. For the year ended July 31, 2010, Dextraze recorded revenue of $4.0 million and adjusted EBITDA of $0.7 million. Dextraze's customer base is focused on the premium hospitality market, including hotel room linen and towels and banquet linen.

Selection as Preferred Proponent to Alberta Health Services (Edmonton)

In Q1, 2011 Alberta Health Services ("AHS") issued a formal request for proposal ("RFP") for laundry and linen services for the City of Edmonton and surrounding areas in order to select a service provider for a ten-year term commencing in 2013 upon the conclusion of K-Bro's current two-year contract. On August 25, 2011, the Corporation was informed that it had been selected as the preferred proponent by AHS and of its intention to enter into negotiations with K-Bro for a new long-term contract to service AHS' laundry and linen requirements in Edmonton and surrounding areas.

Effects of Economic Volatility and Uncertainty

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

- Approximately 68.6% of our revenues in the year were from large publicly funded healthcare customers which are geographically diversified across four provinces;
- K-Bro has fixed a portion of certain variable cost components such as natural gas, electricity and textile supply through forward contracts. K-Bro routinely enters into natural gas and electricity supply contracts and typically tries to align terms with existing linen processing contract terms; and,
- At December 31, 2011, K-Bro had unutilized borrowing capacity of $33.7 million or 84.1% of the revolving credit line available. K-Bro's revolving credit facility is secured by a major Canadian bank and expires on June 30, 2013.
- K-Bro's prudent approach to managing capital coupled with a conservative dividend policy has added operating cash flow and liquidity to the Corporation, thereby improving its ability to withstand the turmoil in the national and global capital markets.

KEY PERFORMANCE DRIVERS

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

($ Thousands, except percentages)

Category	Indicator	Q4, 2011	Q4, 2010	2011	2010
Growth	EBITDA[1] *(%)*	13.6	5.4	18.2	8.6
	Revenue *(%)*	9.1	23.5	12.3	18.9
	Distributable cash flow *(%)*	0.9	8.2	12.0	7.1
Profitability	EBITDA[1]	4,556	4,011	19,946	16,877
	EBITDA margin *(%)*	15.6	15.0	17.1	16.2
	Net earnings	1,643	1,560	7,928	6,953
Stability	Debt to total capitalization *(%)*	8.8	14.7	8.8	14.7
	Unutilized line of credit	33,655	28,987	33,655	28,987
	Payout ratio *(%)*	50.2	50.7	45.9	51.4
	Dividends declared per share	0.275	0.275	1.100	1.100
Cost containment	Wages and benefits *(%)*	46.7	46.2	46.4	46.0
	Utilities *(%)*	7.2	8.2	7.4	8.0
	Operating expenses *(%)*	84.4	85.0	82.9	83.8

[1] EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, gain or loss on disposals, financial charges and amortization). See Terminology.

OUTLOOK

K-Bro's focus is on profitable growth in the years to come as we execute our strategy of expanding geographically and adding new services for our customers. K-Bro is committed to building value for our shareholders, our vendors and our customers. Consistent with our business model where both hospitality clients and healthcare institutions are under long-term contract, with pricing mainly dictated by macroeconomic factors including inflation and consumer price indices, fiscal 2012 will show a modest increases in revenue, earnings and EBITDA compared to 2011. This belief is predicated on:

- a 2.5% core inflation rate[1] for 2012 helps moderate certain expenses but will also result in lower price adjustments for customers with contracts subject to an annual CPI adjustment factor;
- strong principles in our business operations, including price fixing significant costs through forward supply contracts on energy and textiles, and recruiting temporary foreign labour to alleviate shortages and overtime demands;
- K-Bro securing a portion of the healthcare linen processing business of Saskatoon Health Region under a one-year contract with estimated annual revenues of $1.3mm, during which time the Region will explore its options for longer-term processing arrangements;
- reduced stimulus spending resulting in GDP of 2.5% in fiscal 2012 and 2.6% in fiscal 2013[2]; and,
- continued focus on innovative development and process re-engineering within our internal processes resulting in operating efficiencies.

Profitability and free cash flows for fiscal 2012 are expected to remain stable and management believes that the current dividend policy is sustainable for the Corporation in fiscal 2012. K-Bro currently also has several proposals pending and has entered into discussions with potential new healthcare and hospitality customers. In addition, K-Bro continues to seek potential acquisition candidates. Neither the timing nor the degree of likelihood of success of any of these proposals or acquisitions can be stated with any degree of accuracy.

[1] Statistics Canada; www.statscan.gc.ca
[2] Royal Bank of Canada; www.rbc.com/economics

RESULTS OF OPERATIONS

Overall Performance

For the three month period ended December 31, 2011, K-Bro's revenue was $29.2 million, compared to $26.7 million in the comparable prior year period. The new plant in Montréal, the full impact of the increase in volume from the Tilbury laundry contracts, organic revenue growth and increased volume from existing customers contributed to this revenue growth.

Net income in the fourth quarter of 2011 was consistent with the same period in 2010 at $1.6 million. EBITDA increased in the current quarter by $545 thousand (13.6%) over the fourth quarter of 2010.

Quarterly Financial Information

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

($ Thousands, except per share amounts and percentages)	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1
Healthcare revenue	20,432	19,730	20,042	19,941	18,833	17,839	17,646	17,137
Hospitality revenue	8,726	11,414	8,829	7,745	7,886	9,659	8,256	6,795
Total revenue	29,158	31,144	28,871	27,686	26,719	27,498	25,902	23,932
Operating expenses	24,602	25,098	24,006	23,207	22,708	22,571	21,638	20,256
EBITDA[1]	4,556	6,046	4,865	4,479	4,011	4,928	4,264	3,676
EBITDA as % of revenue *(%)*	15.6	19.4	16.9	16.2	15.0	17.9	16.5	15.4
Depreciation and amortization	2,082	2,232	2,036	2,216	2,261	2,254	2,251	2,164
Financial charges	93	131	84	104	153	173	189	127
Loss on disposal of equipment	50	4	20	6	26	105	57	-
Earnings before income taxes	2,331	3,679	2,725	2,153	1,571	2,396	1,767	1,385
Income tax expense (recovery)	688	953	722	597	11	138	55	(42)
Net earnings	1,643	2,726	2,003	1,556	1,560	2,257	1,712	1,427
Net earnings as a % of revenue *(%)*	5.6	8.8	6.9	5.6	5.8	8.2	6.6	6.0
Basic earnings per share	0.237	0.290	0.290	0.226	0.230	0.328	0.250	0.206
Diluted earnings per share	0.235	0.288	0.288	0.223	0.220	0.323	0.250	0.204
Total assets	91,425	90,350	93,148	90,473	90,679	91,963	92,003	94,323
Total long-term financial liabilities	11,203	12,096	17,554	13,079	14,775	15,109	17,716	20,010
Funds provided by operations	3,929	8,217	2,577	4,137	3,720	5,200	4,474	3,330
Long-term debt	6,095	7,224	13,007	8,838	10,763	11,097	13,836	15,912
Dividends declared per share	0.275	0.275	0.275	0.275	0.275	0.275	0.275	0.275

[1] EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, gain or loss on disposals, financial charges and amortization). See Terminology.

Revenue, Earnings and EBITDA

For the year ended December 31, 2011, K-Bro's revenue was $116.9 million, compared to $104.1 million in the prior year. This represents a 12.3% increase in revenue and is attributed to the additional revenue from the acquisition of the new plant in Montréal, additional volume from the execution of new healthcare contracts in Vancouver which commenced processing in Q4, 2010 and additional revenue and volume from new and existing clients. In 2011 approximately 68.6% of K-Bro's revenue was generated from healthcare institutions compared to 68.7% in 2010. The addition of the Montréal plant generated increased hospitality revenue but the additional volume from the Tilbury laundry contract offset the increase resulting in a similar mix in K-Bro's revenue segments in 2011 and 2010.

Net earnings increased in 2011 to $7.9 million from $7.0 million in 2010. Net earnings as a percentage of revenue increased slightly to 6.8% compared to 6.7% in 2010. This slight increase in margin resulted from a $3.8 million increase in pre-tax income which was offset by a $2.8 increase in income tax expense due to the conversion from a fund to a corporation. Net earnings before tax increased in 2011 to $10.9 million from $7.1 million in 2010. Net earnings before tax as a percentage of revenues increased to 9.3% compared to 6.8% in 2010.

EBITDA was $19.9 million in 2011, compared to $16.9 million in 2010. This 18.2% improvement is a result of the flow through of the increase in revenue coupled with favorable variances in commodity pricing on fixed price forward supply contracts and overall effective cost control measures. This is offset by increased delivery costs due to higher fuel prices (see Operating Expenses for further detail).

Operating Expenses

Wages and benefits increased from $47.8 million in 2010 to $54.2 million in 2011 and increased as a percentage of revenues to 46.7% from 46.2%. Despite the control over labor costs, pressures continue to increase as the economy recovers, employment rates improve and provincially regulated minimum wage increases. Linen expenses increased to $12.0 million from $10.6 million but remained constant as a percentage of revenues at 10.3%.

Utility costs decreased from 8.0% in 2010 to 7.4% as a percentage of revenue in 2011. The decrease is a result of the execution of natural gas and electricity forward contracts in order to lock in future variable costs, and in certain instances capitalization of favorable market rates for approximately 20% of the commodity that was acquired at the current market rates. This favorable variance has been offset by higher spot market rates on electricity in Alberta.

Delivery costs have increased to $4.9 million or 4.2% of revenues compared to 3.8% in 2010. The increase is attributed primarily to the increasing price of diesel fuel.

Occupancy, repairs and maintenance, and materials and supplies expenses as a percentage of revenue remained stable in 2011 compared to 2010.

Corporate costs were unchanged totaling $5.7 million for both 2011 and 2010. Corporate costs as a percentage of revenues declined to 4.9% compared to 5.5% in 2010. This higher level of costs in 2010 is attributable to the professional fees relating to the conversion from a Fund to a Corporation and the IFRS transition. This is partly offset by an increase in the 2011 accrual for the Long Term Incentive Plan as a result of exceeding pre-established performance targets. LTIP expenses for 2011 were $1.7 million compared to $1.4 million in 2010.

Depreciation of property, plant and equipment and amortization of intangible assets represents the expense related to the appropriate matching of certain of K-Bro's long-term assets to the estimated useful life and period of economic benefit of those assets. Depreciation of property, plant and equipment is reduced due to decreased depreciation expenses related to major computer hardware purchases that have now been fully amortized. Amortization of intangibles assets is in line with the comparable period in 2010. Included in intangible assets are software expenses relating to IT upgrades.

Financial charges for 2011 decreased compared 2010. The decrease is attributable to a lower long term debt balance throughout the year.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities was $18.9 million, compared to $16.7 million of cash generated from operations during 2010. The increase in cash from operations is primarily due to the changes in the working capital accounts year-over-year together with the flow through of increased net earnings for the year.

During 2011, cash used in financing activities amounted to $11.7 million compared to $1.6 million 2010. Financing activities in 2011 included $4.3 million in funding for the acquisition of Dextraze which was offset by $9.0 million in repayments of long term debt and $7.1 million in dividends paid to Shareholders.

The Corporation used cash of $7.1 million for investing activities during 2011 compared to $15.1 million in 2010. The decrease in cash used in investing activities is driven by the difference in business acquisition costs in 2011 compared to 2010. For the 2011 fiscal year, the cash was invested in the acquisition of property, plant and equipment ($2.8 million) and the acquisition of the Montréal facility ($4.3 million) in June, 2011.

Contractual Obligations

At December 31, 2011, payments due under contractual obligations for the next five years and thereafter are as follows:

		Payments due by Period			
($ Thousands)	Total	<1 Year	1-3 Years	4-5 Years	>5 Years
Long-term debt	6,095	-	6,095	-	-
Operating leases and utility commitments	16,135	5,415	5,405	3,582	1,733
Linen purchase obligations	1,672	1,672	-	-	-

Scheduled lease and forward utility contract payments for 2012 are $5.4 million. The operating lease obligations are secured by automotive equipment and are more fully described in note 13(b) of the Notes to the Consolidated Financial Statements. The source of funds for these commitments will be from operating cash flow and, if necessary, the undrawn portion of the revolving credit facility.

Financial Position

($ Thousands, except percentages)	December 31, 2011	December 31, 2010
Long term debt	6,095	10,763
Shareholders' equity	62,933	62,578
Total capitalization	69,028	73,341
Debt to total capitalization	8.8%	14.7%

For the year ended December 31, 2011, the Corporation had a payout ratio (see Terminology) of 45.9%, a debt to total capitalization of 8.8%, an unused revolving credit facility of $33,655 and has not incurred any events of default under the terms of its credit facility agreement.

As at December 31, 2011, the Corporation had net working capital of $7,245 compared to its working capital position of $8,664 at December 31, 2010. The decrease in working capital is primarily attributable to the increase in income taxes payable as a result of the transition from a fund to a corporation in the current year and the dividends payable.

Management believes that K-Bro has the capital resources and liquidity necessary to meet its commitments, support its operations and finance its growth strategies. In addition to K-Bro's ability to generate cash from operations and its revolving credit facility, K-Bro may also be able to access equity financing, depending upon pricing and availability, for capital spending to sustain its property, plant and equipment.

DIVIDENDS

Fiscal Period	Payment Date	2011 Amount per Share	2011 Total Amount[2]	2010[1] Amount Per Unit	2010[1] Total Amount[2]
January	February 15	0.09167	642	0.09167	642
February	March 15	0.09167	642	0.09167	642
March	April 15	0.09167	642	0.09167	642
Q1		0.27501	1,927	0.27501	1,927
April	May 13	0.09167	642	0.09167	642
May	June 15	0.09167	642	0.09167	642
June	July 15	0.09167	642	0.09167	642
Q2		0.27501	1,927	0.27501	1,927
July	August 15	0.09167	642	0.09167	642
August	September 15	0.09167	642	0.09167	642
September	October 14	0.09167	642	0.09167	642
Q3		0.27501	1,927	0.27501	1,927
October	November 15	0.09167	642	0.09167	642
November	December 15	0.09167	642	0.09167	642
December	January 13	0.09167	642	0.09167	642
Q4		0.27501	1,927	0.27501	1,927
YTD		1.10004	7,706	1.10004	7,706

[1] On January 1, 2011 the Fund completed a conversion from an income trust into a corporation. Comparative amounts for fiscal 2010 collectively refer to t he distributions paid by the Fund in respect of the Units of the Fund and the Exchangeable Shares.

[2] The total amount of dividends paid was $0.09167 per share for a total of $642.146 per month; when rounded in thousands $1.927 of dividends were paid for each of the quarterly periods, respectively.

For the year ended December 31, 2011, the Corporation distributed $1.10 per share compared with $2.40 per diluted share of Distributable Cash (see Terminology). The actual payout ratio was 45.9%.

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

The Corporation designates all dividends paid or deemed to be paid as "eligible dividends" for purposes of subsection 89(14) of the Income Tax Act (Canada), and similar provincial and territorial legislation, unless indicated otherwise.

DISTRIBUTABLE CASH FLOW *(See Terminology)*

The Corporation's source of cash for dividends is distributable cash flow provided by operating activities. Distributable cash flow, reconciled to cash provided by operating activities is presented as follows:

($ Thousands, except per share amounts and percentages)	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1
Cash provided by operating activities	3,929	8,217	2,577	4,137	3,720	5,200	4,474	3,330
Deduct (add):								
Net changes in non-cash working capital items[1]	(80)	2,928	(1,736)	130	(110)	452	413	(205)
Maintenance capital expenditures	179	9	423	224	35	173	451	534
Distributable cash flow	3,830	5,280	3,890	3,783	3,795	4,575	3,610	3,001
Distrbutable cash flow per weighted average diluted shares outstanding	0.548	0.756	0.559	0.541	0.543	0.656	0.519	0.429
Dividends declared	1,927	1,927	1,927	1,927	1,927	1,927	1,927	1,927
Dividends declared per share	0.275	0.275	0.275	0.275	0.275	0.275	0.275	0.275
Payout ratio[2] *(%)*	50.2	36.4	49.2	50.8	50.7	41.9	53.0	64.1
Weighted average shares outstanding during the period, basic	6,932	6,930	6,918	6,891	6,905	6,892	6,877	6,935
Weighted average shares outstanding during the period, diluted	6,993	6,983	6,961	6,993	6,992	6,978	6,951	6,992
TRAILING-TWELVE MONTHS ("TTM")								
Distributable cash flow	16,783	16,748	16,043	15,763	14,981	14,694	13,926	13,741
Dividends	7,706	7,706	7,706	7,706	7,706	7,706	7,706	7,706
Payout ratio[2] *(%)*	45.9	46.0	48.0	48.9	51.4	52.4	55.3	56.1

[1] Net changes in non-cash working capital is excluded from the calculation as management believes it would introduce significant cash flow variability and affect underlying cash flow from operating activities. Significant variability can be caused by such things as the timing of receipts (which individually are large because of the nature of K-Bro's customer base and timing may vary due to the timing of customer approval, vacations of customer personnel, etc.) and the timing of disbursements (such as the payment of large volume rebates done once annually). As well, large increases in working capital are generally required when contracts with new customers are signed as linen is purchased and accounts receivable increase. Management feels that this amount should be excluded from the distrubtable cash flow calculation.

[2] The ratio of dividends paid compared to distributable cash flow is periodically reviewed by the Board of Directors to take into account the current and prospective performance of the business and other items considered to be prudent. Payout ratio is calculated on the dividends declared per share divided by the distributable cash flow per weighted average diluted shares outstanding.

OUTSTANDING SHARES

At December 31 2011, the Corporation had 7,006,365 common shares outstanding. Basic and the diluted weighted average number of common shares outstanding for 2011 were 6,918,955 and 6,980,489, respectively, (6,905,369 and 6,992,400, respectively for the comparative 2010 periods).

In accordance with the LTIP agreement and in conjunction with the performance of the Corporation in the prior fiscal year, during 2011 the Compensation, Nominating and Corporate Governance Committee of the Board of Directors of the Corporation approved LTIP compensation of $1.8 million (2010 – $1.4 million) to be paid as $0.3 million in common shares and $1.5 million in cash. As at December 31, 2011, total assets held in trust by the LTIP trustee was $1.9 million (2010 – $1.6 million) and was comprised of 74,511 in unvested common shares (December 31, 2010 – 114,074) with an aggregate cost of $1.3 million (2010 – $1.6 million) and the remainder in cash. The basic net earnings per share calculation excludes the unvested common shares held by the LTIP Trust.

As at March 13, 2012, there were 7,006,365 common shares issued and outstanding.

RELATED PARTY TRANSACTIONS

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by Mr. Matthew Hills, a director of the Corporation, primarily relating to acquisitions. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms. For the year ended December 31, 2011, the Corporation incurred fees totaling $138 (2010 – $138).

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation had no off-balance sheet arrangements in place at December 31, 2011.

CRITICAL ACCOUNTING ESTIMATES

The Corporation's summary of significant accounting policies are contained in Note 2 to the audited consolidated financial statements.

The Corporation's financial statements include estimates and assumptions made by management in respect of operating results, financial conditions, contingencies, commitments, and related disclosures. Actual results may vary from these estimates. The following are, in the opinion of management, the Corporation's most critical accounting estimates, being those that involve the most difficult, subjective and complex judgements, requiring estimates that are inherently uncertain and which may change in subsequent reporting periods.

K-Bro has continuously refined and documented its management and internal reporting systems to ensure that accurate, timely, internal and external information is gathered and disseminated. Management also regularly evaluates these estimates and assumptions which are based on past experience and other factors that are deemed reasonable under the circumstances.

K-Bro has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Furthermore, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates.

K-Bro's leadership team's mandate includes ongoing development of procedures, standards and systems to allow K-Bro staff to make the best decisions possible and ensuring those decisions are in compliance with the Corporation's policies.

Preparation of the Corporation's consolidated financial statements requires management to make estimates and assumptions that affect:

- volume rebates;
- linen in service;
- intangible assets;
- goodwill;
- income taxes; and,
- allowance for doubtful accounts.

Volume Rebates

The Corporation earns revenue from linen management and laundry services based on written service agreements whereby K-Bro has agreed to collect, launder, deliver and replenish linens. K-Bro recognizes revenue in the period in which the services are provided. Volume rebates, where applicable, are recorded based on annualized expected volumes when it is reasonable that the criteria are likely to be met. Based on past experience, management believes that volumes utilized for any estimates are reasonable and would not expect a material deviation to the balance of accrued liabilities or revenue.

Linen in Service

Linen in service is recorded at cost. Operating room linen is amortized on a straight-line method over an estimated service life of 24 months. General linen is amortized based on usage which results in an estimated service life of the linen equal to 24 months. Based on past experience, management believes that a service life of 24 months is representative of the average service life of linen and would not expect a material deviation to the balance of linen in service or linen expense.

Intangible Assets

The Corporation accounts for intangible assets and goodwill in accordance with IFRS 3, Business Combinations and IAS 38, Intangible Assets. In a business combination, K-Bro may acquire the assets and assume certain liabilities of an acquired entity. The allocation of the purchase price for these transactions involves judgment in determining the fair values assigned to the tangible and intangible assets acquired and the liabilities assumed on the acquisition. The determination of these fair values involves a variety of assumptions, including revenue growth rates, expected operating income, discount rates, and earnings multiples. If K-Bro's estimates or assumptions change prior to finalizing the purchase price allocation for a transaction, a revision to the purchase price allocation or the carrying value of the related assets and liabilities acquired may impact our net income in future periods.

At the date of the acquisition, K-Bro must estimate the value of acquired intangible assets that do not have a well defined market value, such as the value of customer lists and relationships and non-competition agreements.

Valuing these assets involves estimates of the future net benefit to K-Bro and the useful life of such benefits and is based upon various internal and external factors. A change in those estimates could cause a material change to the value of the intangible assets.

Although intangible assets are amortized over their useful life, if the estimated value of an intangible asset has declined below its amortized book value, a write-down would be recorded in the period in which the event causing the decline in value occurred, which would increase amortization expense and decrease the intangible assets balance. At this time, K-Bro does not believe any intangible assets have a book value in excess of their fair market value.

TERMINOLOGY

EBITDA

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

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

	Year ended	
($ Thousands)	**December 31, 2011**	December 31, 2010
Net earnings	7,928	6,953
Add:		
Income tax expense	2,960	163
Interest expense and financial charges, net	412	643
Depreciation of property, plant and equipment	5,938	6,391
Amortization of intangible assets	2,628	2,540
Loss on disposal of property, plant and equipment	80	187
EBITDA	19,946	16,877

Distributable Cash Flow

Distributable cash flow is a measure used by management to evaluate its performance. While the closest IFRS measure is cash provided by operating activities, distributable cash flow is considered relevant because it provides an indication of how much cash generated by operations is available after maintenance capital expenditures. It should be noted that although we consider this measure to be distributable cash flow, financial and non-financial covenants in our credit facilities and dealer agreements may restrict cash from being available for dividends, re-investment in the Corporation, potential acquisitions, or other purposes. Investors should be cautioned that distributable cash flow may not actually be available for growth or distribution from the Corporation. References to "Distributable cash flow" are to cash provided by (used in) operating activities (including the net change in non-cash working capital balances) less capital expenditures.

CHANGES IN ACCOUNTING POLICIES

The Corporation has prepared its December 31, 2011 audited Consolidated Financial Statements in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. Previously, the Corporation prepared its annual financial statements in accordance with Canadian GAAP. The adoption of IFRS has not had a material impact on the operations, strategic decisions, cash flow or capital expenditures of the Corporation.

The Corporation's IFRS accounting policies are provided in note 2 to the audited Consolidated Financial Statements. In addition, note 23 to the Consolidated Financial Statements presents reconciliations between the Corporation's fiscal 2010 Canadian GAAP results and the fiscal 2010 IFRS results. The reconciliations include the consolidated statement of financial position as at December 31, 2010, and consolidated statements of earnings, deficit and comprehensive income for the year ended December 31, 2010.

The following discussion explains the significant differences between K-Bro's previous Canadian GAAP accounting policies and those applied by the Corporation under IFRS. IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for second-time adopters. The accounting policies followed in these audited Consolidated Financial Statements are the same as those applied in the Corporation's interim Consolidated Financial Statements for the periods ended March 31, June 30, 2011 and September 30, 2011.

Spare Parts

Spare parts and servicing equipment were carried as inventory under Canadian GAAP 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 PPE.

Under IFRS spare parts under five thousand dollars will be expensed as incurred, since they are not significant enough to consider capitalizing and tracking as discrete capital assets, and items over five thousand dollars will be capitalized into a new category of PPE called Spare Parts. Most spare parts used by K-Bro are specific to an item of PPE, and therefore would meet the criteria to be recognized as PPE.

Business Acquisition Costs

Under IFRS business acquisition 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. Previously under Canadian GAAP acquisition costs were treated as part of the purchase price in an acquisition and accordingly the acquisition costs for the second Vancouver plant were capitalized as part of the acquired assets. Upon adoption of IFRS in Q1, 2011 this amount has been retrospectively restated.

Income Tax

Deferred income taxes have been adjusted to reflect the tax effect arising from the differences between IFRS and previous Canadian GAAP. Upon transition to IFRS, the Corporation recognized a $0.1 million reduction in the deferred income tax balance with a corresponding increase to retained earnings. For the twelve months ended December 31, 2010, the application of the IFRS adjustments discussed above resulted in a $0.2 million increase to the Corporation's deferred income tax expense and a corresponding decrease to K-Bro's previous Canadian GAAP net earnings.

RECENT ACCOUNTING PRONOUNCEMENTS

All accounting standards effective for periods beginning on or after January 1, 2011 have been adopted as part of the transition to IFRS. Additionally there are new IFRS pronouncements have been issued but are not effective and may have an impact on the Corporation. See note 3 to the audited Consolidated Financial Statements as at and for year ended December 31, 2011.

FINANCIAL INSTRUMENTS

K-Bro's financial instruments at December 31, 2011 consist of accounts receivable, accounts payable and accrued liabilities and long-term debt. The Corporation does not enter into financial instruments for trading or speculative purposes. Financial assets are either classified as available for sale, held to maturity, trading or loans and receivables. Financial liabilities are recorded at amortized cost. Initially, all financial assets and financial liabilities must be recorded on the balance sheet at fair value. Subsequent measurement is determined by the classification of each financial asset and liability. Unrealized gains and losses on financial assets that are held as available for sale are recorded in other comprehensive income until realized, at which time they are recorded in the consolidated statement of earnings. All derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value in the consolidated balance sheet. Transaction costs related to financial instruments are capitalized and then amortized over the expected life of the financial instrument using the effective interest method.

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

CRITICAL RISKS AND UNCERTAINTIES

As at December 31, 2011, there are no material changes in the Corporation's risks or risk management activities since December 31, 2010. The Corporation's results of operations, business prospects, financial condition, cash dividends to Shareholders and the trading price of the Corporation's Shares are subject to a number of risks. These risk factors include: dependence on long-term contracts and the associated renewal risk thereof; the effects of market volatility and uncertainty; potential future tax changes; the competitive environment; our ability to acquire and successfully integrate and operate additional businesses; utility costs; the labour markets; the fact that our credit facility imposes numerous covenants and encumbers assets; and, environmental matters.

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

CONTROLS AND PROCEDURES

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

Disclosure Controls and Procedures

The Corporation has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements of K-Bro was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Corporation's CEO and CFO have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2011, and have concluded that they are effective.

Internal Controls over Financial Reporting

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR"). As IFRS requires more judgment as compared to Canadian GAAP with respect to various accounting treatments, additional processes and controls have been put in place. These changes to financial reporting controls ensured that the Corporation has made and will continue to make the appropriate judgments and adhere to IFRS accounting policies.

Consequently the CEO and CFO confirm that the additions to these controls that occurred during the year ended December 31, 2011 did not materially affect, or are reasonably likely to materially affect, the Corporation's ICFR. Based upon their evaluation of these controls for the year ended December 31, 2011, the CEO and CFO have concluded that these controls were operating effectively.

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

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

Consolidated Financial Statements

INDEPENDENT AUDITORS REPORT

pwc

March 13, 2012
Independent Auditor's Report

To the Shareholders of K-Bro Linen Inc.

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

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

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

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

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

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

PricewaterhouseCoopers LLP

Chartered Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

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

Approved on behalf of the Fund

Ross S. Smith
Chair

Matthew B. Hills
Director

CONSOLIDATED STATEMENTS OF EARNINGS & COMPREHENSIVE INCOME

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

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

CONSOLIDATED STATEMENTS OF CASH FLOW

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

K-Bro Linen Inc. (the "Corporation" or "K-Bro") is incorporated in Canada under the Business Corporations Act (Alberta). The Corporation and its wholly owned subsidiaries provide a range of linen services to healthcare institutions, hotels and other commercial accounts that include the processing, management and distribution of general linen and operating room linen. The Corporation provides services from eight processing facilities in seven major cities across Canada from Victoria, British Columbia to Québec City, Québec.

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

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

1 Basis of Presentation

a) Conversion from an income fund

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

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

b) Adoption of IFRS

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

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

2 Significant accounting policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

a) Basis of Measurement

The Consolidated Financial Statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments.

b) Principles of Consolidation

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

c) Linen in Service

Linen in service is measured at the lower of cost and net realizable value. The cost is calculated by a method which approximates the weighted average cost method, with operating room linen amortized across its estimated service life of 24 months and general linen amortized based on usage which results in an estimated average service life of 24 months.

d) Revenue Recognition

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

e) Property, Plant and Equipment

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

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

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

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

f) Impairment of Financial Assets

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

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

g) Impairment of Non-Financial Assets

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

h) Intangible Assets

Intangible assets are recorded at cost and include customer contracts in progress and related relationships, which are being amortized using the straight-line method over the remaining lives of the related contracts and relationships. Intangible assets which relate to computer software are amortized using the straight-line method over five years when put into service. These estimates are reviewed at least annually and are updated if expectations change as a result of changing client relationships or technological obsolescence.

i) Income Taxes

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

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

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

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

Until January 1, 2011, the Corporation was a mutual fund trust for income tax purposes. As such, the trust was only taxable on any amount not distributed to unitholders. As substantially all taxable income was distributed to the unitholders, no provision for current income taxes on earnings of the Fund was made in the financial statements to December 31, 2010.

j) Business Combinations

Business combinations are accounted for using the acquisition method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred.

k) Goodwill

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

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

l) Volume Rebates

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

m) Earnings Per Share

Basic earnings per share ("EPS") is calculated by dividing net earnings for the period attributable to Shareholders of the Corporation by the weighted average number of Common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of common shares included within the weighted average is computed using the treasury stock method. The Corporation's potentially dilutive Common shares are comprised of long-term incentive plan equity compensation granted to officers and key employees (notes 2(n)(ii) and (iii)).

2 Significant accounting policies (continued)

n) Employee Benefits

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

ii) Equity-based compensation plan of the Fund
The officers and key employees of the predecessor Fund were eligible to participate in a long-term incentive plan (“LTIP”), which involved equity-settled share-based payments. The Fund set aside funds each year based on the amount by which distributable cash flow exceeded a base distributable amount for the fiscal year. The LTIP was amended to provide for the continuing operation of the plan following the Conversion, as well as to permit the trustee to hold a portion of the funds in cash.

The LTIP trustee purchased common shares in the open market and held such common shares until ownership vests to each participant. Subject to the Board’s discretion to accelerate vesting, one-quarter of the LTIP grant vested thirty days following the date that the Trustees of the Fund approved the audited Consolidated Financial Statements (the “Determination Date”). The remaining three-quarters vested on the second anniversary of the Determination Date. In most circumstances, unvested grant amounts held by the trustee for an LTIP participant are forfeited if the participant resigns or is terminated for cause prior to the applicable vesting date, and any equity will be sold and the proceeds returned to the Corporation.

As of May 1, 2011 no additional compensation will be issued under this LTIP. Any unvested compensation granted under the terms of this plan will vest under the original terms and conditions of issue.

iii) Equity-based compensation plan of the Corporation
On June 16, 2011, the Shareholders of the Corporation approved a New Long-term Incentive Plan (“New LTIP”). Under the New LTIP, awards are granted annually in respect of the prior fiscal year to the eligible participants based on a percentage of annual salary. The amount of the award (net of withholding obligations) is satisfied by issuing treasury shares to be held in trust by the trustee pursuant to the terms of the New LTIP. All awards issued under the provisions of the LTIP are recorded as compensation expense.

Subject to the discretion of the Compensation, Nominating and Corporate Governance Committee of the Board of Directors, one-quarter of a Participant’s grant will vest on the Determination Date (defined as the first May 15th following the date that the Directors of the Corporation approve the audited consolidated financial statements of the Corporation for the prior year). The remaining three-quarters of the Participant’s grant will vest on November 30th following the second anniversary of the Determination Date.

If a change of control occurs, all New LTIP Shares held by the Trustee in respect of unvested grants will vest immediately. New LTIP participants are entitled to receive dividends on all common shares granted under the New LTIP whether vested or unvested. In most circumstances, unvested common shares held by the New LTIP trustee for a participant will be forfeited if the participant resigns or is terminated for cause prior to the applicable vesting date, and those common shares will be disposed of by the trustee to K-Bro for no consideration and such Common shares shall thereupon be cancelled. If a participant is terminated without cause, retires or resigns on a basis which constitutes constructive dismissal, the participant will be entitled to receive his or her unvested common shares on the regular vesting schedule under the New LTIP.

“By expanding our capabilities into new markets, we have opportunities to leverage our operating strengths, grow our revenue, and further enhance operating margins, ensuring consistent value creation for stakeholders.”

Linda McCurdy
President and Chief Executive Officer

o) Financial Instruments

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

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

The Corporation has made the following classifications:

	Classification	Measurement
FINANCIAL ASSETS		
Accounts receivable	Loans and receivables	Amortized cost
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

3 Accounting standards issued and not applied

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

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

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

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

- IFRS 10, *Consolidated Financial Statements*; requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

- IFRS 12, *Disclosure of Interests in Other Entities*; establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

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

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

4 Critical accounting estimates and judgements

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

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

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

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

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

Linen in Service
The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits of use. Linen in service is amortized across its estimated service life of 24 months and general linen is amortized based on usage which results in an estimated average service life of 24 months.

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

5 Business Acquisitions

a) Montréal, Québec

On June 30, 2011, the Corporation completed the acquisition of a laundry business, certain working capital and equipment of a processing plant located in Montréal, Québec from Les Buanderies Pierre R. Dextraze Inc. ("Dextraze"). The acquired business consisted of contracts with hospitality customers in Montréal and surrounding suburbs in Québec which complemented the existing business of the Corporation. The business acquisition has been accounted for using the acquisition method, whereby the purchase consideration was allocated to the fair values of the net assets acquired. The acquisition was funded through the Corporation's revolving credit facility.

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

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

[1] For the year ended December 31, 2011. $213 in professional fees associated with the acquistion has been included in expenses.

[2] Of the cash consideration payable, $632 is deposited with an escrow agent and will be released to the vendor upon the confirmation that certain representations and warranties are satisfied and earnings targets are achieved within the 24 month period subsequent to the acquisition. As at December 31, 2011 it is estimated that the contingent consideration will be paid in full and therefore, the entire amount has been included as part of goodwill.

a) Montréal, Québec (continued)

As part of the acquired working capital, the Corporation received various accounts receivable which when valued at fair value of $548 was equivalent to their exchange amounts. All acquired accounts receivable were subsequently collected.

Intangible assets acquired are made up of customer contracts along with related relationships and customer lists. Goodwill acquired in the transaction arises from the efficiencies and synergies created between the existing business of the Corporation and the acquired assets. Of the acquired goodwill in the transaction $771 is deductible for tax purposes.

Annualized figures of the acquired business as if the acquisition had taken place at the beginning of the year have not been presented for the year ended December 31, 2011 as the Corporation and Dextraze have different fiscal periods and the Corporation does not have access to the necessary information.

b) Vancouver, British Columbia

On January 29, 2010, the Corporation completed the acquisition of a laundry business, linen, certain working capital and equipment of a processing plant located in Greater Vancouver, British Columbia from G&K Services Canada Inc. The acquired business consisted of contracts with Vancouver healthcare institutions and hospitality customers in both the greater Vancouver area and Whistler, British Columbia which complemented the existing business of the Corporation. The business acquisition has been accounted for using the acquisition method, whereby the purchase consideration was allocated to the fair values of the net assets acquired. The acquisition was funded through the Corporation's revolving credit facility.

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

($ Thousands)	December 31, 2011[1]
Consideration	
Purchase price	12,259
Less:	
Restricted escrow funds[2]	-
Cash consideration	12,259
Net assets acquired:	
Working capital, net	1,228
Linen in service	500
Property, plant & equipment	4,218
Intangible assets	2,900
Goodwill	3,413
	12,259

[1] Under IFRS, professional fees associated with an acquisition do not qualify for capitalization and are required to be expensed. This treatment differs from previous GAAP under which these costs were eligible for capitalization. As a part of the Corporation's IFRS conversion goodwill was reduced by an aggregate amount of $665 as at December 31, 2010 (note 23).

[2] Of the cash consideration payable, $250 was deposited with an escrow agent to be released to the vendor upon the confirmation that certain representations and warranties were satisfied in the 12 month period subsequent to the acquisition. On conversion to IFRS, the full amount was reclassified as goodwill during Q1, 2010 (note 23). On January 31, 2011 the full amount of the escrow account was paid to the vendor.

As part of the acquired working capital, the Corporation received various accounts receivable which when valued at fair value was equivalent to their exchange amounts. Subsequent to the acquisition all acquired accounts receivable amounts were collected.

Intangible assets acquired are made up of customer contracts along with related relationships and customer lists. Goodwill acquired in the transaction arises from the efficiencies and synergies created between the existing business of the Corporation and the acquired assets. All of the goodwill acquired in the transaction is deductible for tax purposes.

6 Property, plant and equipment

($ Thousands)	Land	Buildings	Laundry Equipment	Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements	Spare Parts	Total
Year ended, December 31, 2010									
Opening net book amount	70	499	23,849	450	202	536	7,977	229	33,812
Additions	-	5	1,817	39	76	97	109	283	2,426
Acquisition of business	-	-	3,634	4	574	6	-	-	4,218
Disposals	-	-	(57)	(135)	(12)	(4)	-	-	(208)
Depreciation charge	-	(43)	(4,234)	(139)	(50)	(572)	(1,353)	-	(6,391)
Closing net book amount	70	461	25,009	219	790	63	6,733	512	33,857
At December 31, 2010									
Cost	70	555	42,842	537	1,025	1,436	11,240	512	58,217
Accumulated depreciation	-	(94)	(17,833)	(318)	(235)	(1,373)	(4,507)	-	(24,360)
Net book amount	70	461	25,009	219	790	63	6,733	512	33,857
Year ended, December 31, 2011									
Opening net book amount	70	461	25,009	219	790	63	6,733	512	33,857
Additions	-	-	2,331	56	10	73	197	180	2,847
Acquisition of business	55	720	1,616	18	-	36	-	-	2,445
Disposals	-	-	(43)	(3)	(69)	(1)	-	-	(116)
Depreciation charge	-	(59)	(4,385)	(90)	(90)	(71)	(1,243)	-	(5,938)
Closing net book amount	125	1,122	24,528	200	641	100	5,687	692	33,095
At December 31, 2011									
Cost	125	1,275	46,712	602	955	1,543	11,437	692	63,341
Accumulated depreciation	-	(153)	(22,184)	(402)	(314)	(1,443)	(5,750)	-	(30,246)
Net book amount	125	1,122	24,528	200	641	100	5,687	692	33,095

7 Intangible assets

($ Thousands)	Healthcare Contracts	Hospitality Contracts	Computer Software	Total
Year ended, December 31, 2010				
Opening net book amount	11,252	2,664	679	14,595
Additions	-	-	244	244
Acquisition of business	-	2,900	-	2,900
Amortization charge	(1,616)	(745)	(179)	(2,540)
Closing net book amount	9,636	4,819	744	15,199
At December 31, 2010				
Cost	19,200	7,597	923	27,720
Accumulated amortization	(9,564)	(2,778)	(179)	(12,521)
Net book amount	9,636	4,819	744	15,199
Year ended, December 31, 2011				
Opening net book amount	9,636	4,819	744	15,199
Additions	-	-	-	-
Acquisition of business	-	769	-	769
Amortization charge	(1,616)	(827)	(185)	(2,628)
Closing net book amount	8,020	4,761	559	13,340
At December 31, 2011				
Cost	19,200	8,366	923	28,489
Accumulated amortization	(11,180)	(3,605)	(364)	(15,149)
Net book amount	8,020	4,761	559	13,340

8 Goodwill

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

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

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

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

9 Long-term debt

($ Thousands)	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	43	4,043
New debt	-	4,317	4,317
Repayment of debt	-	(8,985)	(8,985)
Closing Balance at December 31, 2010	4,000	2,095	6,095
Current portion of long-term debt	-	-	-
Non-current portion of long-term debt	4,000	2,095	6,095
	4,000	2,095	6,095

[1] Banker's Acceptances bear interest at 30 day BA rates plus 2.5% depending on certain financial ratios, renewable monthly until June 30, 2013. As at December 31, 2011, the interest rate was 3%.

[2] Prime rate loan, collateralized by a general security agreement, interest at prime plus 1.0% depending on certin financial ratios, monthly repayment of interest only, maturing on June 30, 2013. As at December 31, 2011, the interest rate was 4%.

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

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

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

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

10 Financial charges

($ Thousands)	**2011**	2010
Interest on long-term debt	274	436
Other charges, net	138	207
	412	643

11 Unamortized lease inducements

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

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

12 Income taxes

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

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

Deferred income tax liabilities are attributable to the following items:

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

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

13 Contingencies and commitments

a) Contingencies - Letters of credit

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

b) Commitments

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

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

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

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

"Quality, innovation, and mutual respect for our customers, employees and communities is at the very center of everything we have done for the past 50 years. We have positioned K-Bro to be the pre-imminent partner of choice by providing services across the country."

Sean Curtis
Senior Vice-President and General Manager

14 Share Capital

a) Authorized

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

b) Issued and outstanding

	December 31, 2011		December 31, 2010	
	Shares (#)	Capital ($ Thousands)	Shares (#)	Capital ($ Thousands)
Common shares				
Balance, beginning of year	-	-	-	-
Issued on Conversion	7,004,973	71,400	-	-
Issued under LTIP	1,392	-	-	-
	7,006,365	71,400	-	-
Fund units				
Balance, beginning of year	6,932,562	70,676	6,932,562	70,676
Exchanged	(6,932,562)	(70,676)	-	-
	-	-	6,932,562	70,676
Exchangeable shares				
Balance, beginning of year	72,411	724	72,411	724
Exchanged	(72,411)	(724)	-	-
	-	-	72,411	724
Capital held in LTIP trust				
Balance, beginning of year	-	(1,601)	-	(834)
Exchanged	-	(306)	-	(767)
	-	(1,907)	-	(1,601)
Total Share Capital	**7,006,365**	**69,493**	**7,004,973**	**69,799**

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

c) Weighted average number of shares outstanding

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

15 Long-Term Incentive Plan

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

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

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

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

16 Dividends to Shareholders

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

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

17 Net change in non-cash working capital items

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

18 Financial Instruments

a) Fair value

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

b) Financial risk management

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

c) Price risk

i) Currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Corporation is not significantly exposed to foreign currency risk as all revenues are received in Canadian dollars and minimal expenses are incurred in foreign currencies. For large capital expenditure commitments denominated in a foreign currency, the Corporation will enter into foreign exchange forward contracts if considered prudent to mitigate this risk. At December 31, 2011, no foreign exchange forward option contracts were outstanding.

ii) Interest rate risk

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

iii) Other price risk

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

d) Credit risk

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

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

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

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

($ Thousands)	Gross	Allowance	Net
December 31, 2011			
Current	9,088	-	9,088
31-60 days	4,935	-	4,935
Greater than 60 days	927	48	879
	14,950	48	14,902
December 31, 2010			
Current	10,272	-	10,272
31-60 days	2,660	-	2,660
Greater than 60 days	462	42	420
	13,394	42	13,352

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

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

e) Liquidity risk

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

The Corporation has a credit facility with a maturity date of June 30, 2013 (note 9). The degree to which the Corporation is leveraged may reduce its ability to obtain additional financing for working capital and to finance investments to maintain and grow the current levels of cash flows from operations. The Corporation may be unable to extend the maturity date of the credit facility.

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

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

19 Capital management

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

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

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

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

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

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

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

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

20 Related party transactions

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

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

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

($ Thousands)	2011	2010
Salaries and retainer fees	1,593	1,507
Short-term bonus incentives	585	543
Post-employment benefits	46	43
Unit-based payments	1,497	1,220
	3,721	3,313

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

21 Expense by nature

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

22 Segmented information

The Corporation provides laundry and linen services to the healthcare and hospitality sectors through eight operating divisions located in Vancouver, Victoria, Calgary, Edmonton, Toronto, Montréal, and Québec City. The services offered and the economic characteristics associated with these divisions are similar, therefore they have been aggregated into one reportable segment which operates exclusively in Canada. The earnings of the acquired Montréal and Greater Vancouver divisions (note 5) are reported commencing July 1, 2011 and February 1, 2010, respectively.

In Edmonton, the Corporation is the significant supplier of laundry and linen services to the entity which manages all major healthcare facilities in the region. This contract currently expires on January 31, 2013. In Calgary, the major customer is contractually committed to February 28, 2018 and in Vancouver the major customer is contractually committed to November 12, 2015. For the year ended December 31, 2011, the Corporation has recorded revenue of $54,743 (2010 – $52,887) from these three major customers, representing 47% (2010 – 51%) of total revenue.

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

23 Transition to IFRS

These audited Consolidated Financial Statements have been prepared in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards as issued by the IASB. Previously, the Corporation prepared its annual Consolidated Financial Statements in accordance with previous GAAP.

IFRS 1 requires the presentation of information for 2010 comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of all IFRSs.

The following reconciliations present the adjustments made to the Corporation's previous GAAP financial results of operations and financial position to comply with IFRS 1. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations. Reconciliations include the Corporation's Consolidated Statement of Financial Position as at December 31, 2010 and Consolidated Statements of Earnings, Deficit and Comprehensive Income for the year ended December 31, 2010.

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

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

a) Transition elections

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

i) Business combinations

IFRS 1 provides the option not to apply IFRS 3, Business Combinations, retrospectively to past business combinations that occurred before the transition date or an alternate designated date. The Corporation elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to January 1, 2010. As such, Canadian GAAP balances relating to business combinations entered into before January 1, 2010, have been carried forward without adjustment.

ii) Share-based payments

On first time adoption of IFRS the requirements of IFRS 2, Share-based Payment, apply to all grants of equity settled transactions made after November 7, 2002 that have not yet vested at the transition date. A company may also choose to apply IFRS 2 to any equity instruments that were granted before November 7, 2002, or that were granted after that date, and vested before the date of transition, but only if the company has previously disclosed the fair value of the instrument, determined at the measurement date. In accordance with IFRS 1, the Corporation has elected to not to apply IFRS 2 to any equity instruments that were granted before November 7, 2002 or that were granted after November 7, 2002 and vested before the date of transition. As a result, no adjustments were required on transition.

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

Opening Consolidated Balance Sheet

($ Thousands) As at January 1, 2010	Previous GAAP	IFRS Adjustments Prepaid Expenses & Deposits	Acquisition Adjustments	Deferred Taxes	IFRS
ASSETS					
Current assets					
Accounts receivable	9,451	-	-	-	9,451
Linen in service	7,305	(56)	-	-	7,249
Prepaid expenses and deposits	1,213	(233)	(373)	-	607
Deferred income taxes	449	-	-	(499)	-
	18,418	(289)	(373)	(449)	17,307
Deferred income taxes	-	-	-	449	449
Property, plant and equipment	33,583	229	-	-	33,812
Intangible assets	14,595	-	-	-	14,595
Goodwill	16,220	-	-	-	16,220
	82,816	(60)	(373)	-	82,383
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	9,880	-	-	-	9,880
Distribution payable to unitholders	642	-	-	-	642
	10,522	-	-	-	10,522
Long-term debt	4,043	-	-	-	4,043
Unamortized lease inducements	611	-	-	-	611
Deferred income taxes	3,847	-	-	(134)	3,713
	19,023	-	-	(134)	18,889
UNITHOLDERS' EQUITY					
Equity capital	70,566	-	-	-	70,566
Contributed surplus	572	-	-	-	572
Deficit	(7,310)	(60)	(373)	134	(7,609)
Accumulated other comprehensive loss	(35)	-	-	-	(35)
	63,793	(60)	(373)	134	63,494
	82,816	(60)	(373)	-	82,383

Consolidated Statement of Financial Position

($ Thousands) As at December 31, 2010	GAAP	IFRS Adjustments Previous & Deposits (i)	Prepaid Expenses Adjustments (ii)	Acquisition Taxes (iii)	Deferred Impact (i)	PPE IFRS
ASSETS						
Current assets						
Accounts receivable	13,352	-	-	-	-	13,352
Linen in service	7,933	(93)	-	-	-	7,840
Prepaid expenses and deposits	1,277	(479)	-	-	-	798
	22,562	(572)	-	-	-	21,990
Restricted escrow funds	250	-	(250)	-	-	-
Property, plant and equipment	34,070	512	-	-	(725)	33,857
Intangible assets	15,199	-	-	-		15,199
Goodwill	20,048	-	(415)	-	-	19,633
	92,129	(60)	(665)	-	(725)	90,679
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities	13,326	-	-	-	-	13,326
Deferred income taxes	98	-	-	(98)	-	-
	13,424	-	-	(98)	-	13,326
Long-term debt	10,763	-	-	-	-	10,763
Unamortized lease inducements	566	-	-	-	-	566
Deferred income taxes	3,667	-	-	(221)	-	3,446
	28,420	-	-	(319)	-	28,101
UNITHOLDERS' EQUITY						
Equity capital	69,799	-	-	-	-	69,799
Contributed surplus	1,141	-	-	-	-	1,141
Deficit	(7,231)	(60)	(665)	319	(725)	(8,362)
	63,709	(60)	(665)	319	(725)	62,578
	92,129	(60)	(665)	-	(725)	90,679

Consolidated Statement of Earnings, Deficit and Comprehensive Income

($ Thousands) Year Ended December 31, 2010	Previous GAAP	IFRS Adjustments Prepaid Expenses & Deposits (i)	Acquisition Adjustments (ii)	PPE Impact (i)	IFRS
Revenue	104,051	-	-	-	104,051
Expenses					
Wages and benefits	47,848	-	-	-	47,848
Linen	10,603	-	-	-	10,603
Utilities	8,361	-	-	-	8,361
Delivery	3,993	-	-	-	3,993
Occupancy costs	3,762	-	-	-	3,762
Materials and supplies	3,492	-	-	-	3,492
Repairs and maintenance	3,416	-	-	-	3,416
Corporate	5,406	-	293	-	5,699
	88,881	-	293	-	87,174
Earnings before the undernoted	17,170	-	(293)	-	16,877
Other expenses					
Depreciation of property, plant and equipment	5,666	-	-	725	6,391
Amortization of intangible assets	2,540	-	-	-	2,540
Financial charges	643	-	-	-	643
Loss on disposal of property, plant and equipment	187	-	-	-	187
	9,036	-	-	725	9,761
Earnings before income taxes	8,134	-	(293)	(725)	7,116
Income tax expense (recovery)	349	-	(54)	(132)	163
Net earnings	7,785	-	(239)	(593)	6,953
Deficit, beginning of year	(7,310)	(41)	(258)	-	(7,609)
Distributions to unitholders	(7,706)	-	-	-	(7,706)
Deficit, end of year	(7,231)	(41)	(497)	(593)	(8,362)
Net earnings per share					
Basic	1.13	-	-	-	1.01
Diluted	1.11	-	-	-	0.99
Weighted average number of shares outstanding					
Basic	6,905,369	-	-	-	6,905,369
Diluted	6,992,400	-	-	-	6,992,400

c) Explanatory notes

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

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

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

ii) Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and the services are received. Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees, advisory, legal, accounting, valuation and other professional and/or consulting fees.

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

Restricted escrow funds paid as part of the acquisition described in note 5(b) were carried on the consolidated balance sheet as a long-term restricted asset under previous GAAP. However, under the provisions of IFRS, contingent payments should be recognized as goodwill as part of the acquired net assets when the amount is likely to be paid. Accordingly, the full amount was reclassified as goodwill in the consolidated balance sheet as of Q1, 2010.

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

iv) 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.

24 Subsequent Events

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

Corporate information

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Michael Percy, PhD
Professor, School of Business
University of Alberta

Linda McCurdy, MBA
President & Chief Executive Officer
K-Bro Linen Systems Inc.

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LEGAL COUNSEL

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Bennett Jones LLP, *Edmonton*

PRINCIPAL BANK

TD Bank, *Edmonton*

STOCK EXCHANGE LISTING

TSX: KBL

NOTICE OF ANNUAL MEETING

The annual meeting of Shareholders will be held at the **Sheraton Centre Hotel**, **VIP Room**, 123 Queen Street West, Toronto, Ontario, Canada on **June 14, 2012** at **10:00am (Eastern)**

K-Bro Linen Inc.