



Q1, 2012
Consolidated
Financial
Statements

dependable.

Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	March 31, 2012	December 31, 2011
ASSETS		
Current assets		
Cash	\$ 115	\$ -
Accounts receivable	15,593	14,902
Linen in service	8,101	8,182
Prepaid expenses and deposits	1,534	1,450
	25,343	24,534
Property, plant and equipment (note 4)	34,063	33,095
Intangible assets	12,667	13,340
Goodwill	20,456	20,456
	\$ 92,529	\$ 91,425
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 16,495	\$ 14,790
Income taxes payable	2,854	1,857
Dividends payable to shareholders	642	642
	19,991	17,289
Long-term debt (note 5)	4,000	6,095
Unamortized lease inducements	488	512
Deferred income taxes	4,307	4,596
	\$ 28,786	\$ 28,492
SHAREHOLDERS' EQUITY		
Share capital	69,493	69,493
Contributed surplus	1,848	1,580
Deficit	(7,598)	(8,140)
	\$ 63,743	\$ 62,933
Contingencies and commitments (note 6)	\$ 92,529	\$ 91,425

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

Condensed Consolidated Statements of Earnings & Comprehensive Income

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

	Three Months Ended March 31,	
	2012	2011
Revenue	\$ 30,165	\$ 27,686
Expenses		
Wages and benefits	13,754	12,794
Linen	3,177	2,938
Utilities	1,981	2,194
Delivery	1,340	1,197
Repairs and maintenance	960	921
Occupancy costs	967	947
Materials and supplies	911	854
Corporate	1,478	1,362
	24,568	23,207
EBITDA	5,597	4,479
Other expenses		
Depreciation of property, plant and equipment	1,534	1,575
Amortization of intangible assets	673	641
Financial charges	84	104
Loss on disposal of property, plant and equipment	129	6
	2,420	2,326
Earnings before income taxes	3,177	2,153
Current income tax expense	997	357
Deferred income tax expense (recovery)	(289)	240
Income tax expense	708	597
Net earnings and Comprehensive income	2,469	1,556
Net earnings per share:		
Basic	\$ 0.36	\$ 0.23
Diluted	\$ 0.35	\$ 0.22
Weighted average number of shares outstanding (note 7):		
Basic	6,931,854	6,890,899
Diluted	7,003,346	6,992,622

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

Condensed Consolidated Statements of Changes in Equity

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

	Issued Capital		Contributed surplus	Shares held in trust	Deficit	Total equity
	Number of shares	Amount				
	#	\$				
As at December 31, 2011	7,006,365	71,400	1,580	(1,907)	(8,140)	62,933
Net earnings	-	-	-	-	2,469	2,469
Dividends declared (note 8)	-	-	-	-	(1,927)	(1,927)
Employee share based compensation expense	-	-	268	-	-	268
As at March 31, 2012	7,006,365	71,400	1,848	(1,907)	(7,598)	63,743

	Issued Capital		Contributed surplus	Shares held in trust	Deficit	Total equity
	Number of shares/units	Amount				
	#	\$				
As at December 31, 2010	7,004,973	71,400	1,141	(1,601)	(8,362)	62,578
Net earnings	-	-	-	-	1,556	1,556
Dividends declared (note 8)	-	-	-	-	(1,927)	(1,927)
Employee share based compensation expense	-	-	119	-	-	119
As at March 31, 2011	7,004,973	71,400	1,260	(1,601)	(8,733)	62,326

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

Condensed Consolidated Statements of Cash Flow

(unaudited, thousands of Canadian dollars)

	Three Months Ended March 31,	
	2012	2011
OPERATING ACTIVITIES		
Net earnings	\$ 2,469	\$ 1,556
Depreciation of property, plant and equipment	1,534	1,575
Amortization of intangible assets	673	641
Amortization of lease inducements	(24)	(11)
Loss on disposal of property, plant and equipment	129	6
Deferred income taxes	(289)	240
	4,492	4,007
Change in non-cash balances relating to operations (note 9)	2,276	130
Cash provided by operating activities	6,768	4,137
FINANCING ACTIVITIES		
Repayments to revolving credit facility	(2,095)	(1,925)
Dividends paid to shareholders	(1,927)	(1,285)
Cash used in financing activities	(4,022)	(3,210)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,677)	(930)
Proceeds from disposal of property, plant and equipment	46	3
Cash used in investing activities	(2,631)	(927)
Change in cash during the period	115	-
Cash, beginning of year	-	-
Cash, end of period	\$ 115	\$ -
Supplementary cash flow information		
Interest paid	\$ 34	\$ 70
Income taxes	\$ -	\$ -

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

Notes to the Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2012 and 2011)

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 unaudited interim Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors ("the Board") on May 2, 2012.

1 Statement of Compliance

These unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards and specifically, International Accounting Standard 34, *Interim Financial Reporting*. Consequently, these unaudited interim condensed consolidated financial statements do not include all of the information and footnotes required by International Financial Reporting Standards for annual consolidated financial statements for year-end reporting purposes.

2 Basis of Presentation

The accounting policies and methods applied by the Corporation in these unaudited interim condensed consolidated financial statements are the same as those applied by the Corporation in its most recent annual financial statements as at and for the year ended December 31, 2011.

3 New Standards not yet adopted and interpretations issued but not yet effective

There are no changes in accounting standards applicable to future periods other than as disclosed in the most recent annual consolidated financial statements as at and for the year ended December 31, 2011.

4 Property, plant and equipment

	Land	Buildings	Laundry Equipment	Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements	Spare Parts	Total
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
Three-month period ended, March 31, 2012									
Opening net book amount	\$ 125	\$ 1,122	\$ 24,528	\$ 200	\$ 641	\$ 100	\$ 5,687	\$ 692	\$ 33,095
Additions	-	72	2,586	-	-	39	10	(30)	2,677
Acquisition of business	-	-	-	-	-	-	-	-	-
Disposals	-	-	(141)	-	(34)	-	-	-	(175)
Depreciation charge	-	(21)	(1,136)	(18)	(22)	(23)	(314)	-	(1,534)
Closing net book amount	\$ 125	\$ 1,173	\$ 25,837	\$ 182	\$ 585	\$ 116	\$ 5,383	\$ 662	\$ 34,063
At March 31, 2012									
Cost	\$ 125	\$ 1,346	\$ 49,048	\$ 602	\$ 913	\$ 1,581	\$ 11,447	\$ 662	\$ 65,724
Accumulated depreciation	-	(173)	(23,211)	(420)	(328)	(1,465)	(6,064)	-	(31,661)
Net book amount	\$ 125	\$ 1,173	\$ 25,837	\$ 182	\$ 585	\$ 116	\$ 5,383	\$ 662	\$ 34,063

Notes to the Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2012 and 2011)

5 Long-term debt

	Bankers Acceptances ⁽¹⁾	Prime Rate Loan ⁽²⁾	Total Long Term Debt
At January 1, 2011	\$ 4,000	\$ 6,763	\$ 10,763
New debt	-	4,317	4,317
Repayment of debt	-	(8,985)	(8,985)
Closing Balance at December 31, 2011	4,000	2,095	6,095
Current portion of long-term debt	-	-	-
Non-current portion of long-term debt	4,000	2,095	6,095
	\$ 4,000	\$ 2,095	\$ 6,095

At January 1, 2012	\$ 4,000	\$ 2,095	\$ 6,095
New debt	-	-	-
Repayment of debt	-	(2,095)	(2,095)
Closing Balance at March 31, 2012	4,000	-	4,000
Current portion of long-term debt	-	-	-
Non-current portion of long-term debt	4,000	-	4,000
	\$ 4,000	\$ -	\$ 4,000

⁽¹⁾ Bankers' Acceptances bear interest at 30 day BA rates plus 2.5% depending on certain financial ratios, renewable monthly until June 30, 2013. As at March 31, 2012, the interest rate was 3.6%.

⁽²⁾ Prime rate loan, collateralized by a general security agreement, interest at prime plus 1.0% depending on certain financial ratios, monthly repayment of interest only, maturing on June 30, 2013. As at March 31, 2012, the interest rate was 4.0%.

6 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 (2011 – \$250) which remains outstanding for the duration the Corporation provides services to the customer.

Notes to the Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts,
three months ended March 31, 2012 and 2011)

6 Contingencies and commitments, continued

b) Commitments

(i) Operating leases and utility commitments

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

2012	\$	4,169
2013		2,718
2014		2,389
2015		1,911
2016		1,556
Subsequent		1,685
	\$	14,428

(ii) Linen purchase commitments

At March 31, 2012, the Corporation was committed to linen expenditure obligations in the amount of \$3,966 (2011 - \$2,702).

(iii) Property, plant and equipment commitments

At March 31, 2012, the Corporation was committed to capital expenditure obligations in the amount of \$611 (2011 - \$267).

7 Weighted average number of shares outstanding

	Three Months Ended March 31,	
	2012	2011
Balance, beginning of period	7,006,365	7,004,973
Weighted average unvested shares purchased for LTI	(74,511)	(114,074)
Basic weighted average shares for the period	6,931,854	6,890,899
Basic weighted average shares for the period	6,931,854	6,890,899
Dilutive effect of LTI shares	71,492	101,723
Fully diluted weighted average shares for the period	7,003,346	6,992,622

8 Dividends to Shareholders

During the period ended March 31, 2012, the Corporation declared total dividends to Shareholders of \$1,927 or \$0.275 per share (2011 - \$1,927 or \$0.275 per share).

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

Notes to the Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2012 and 2011)

9 Net change in non-cash working capital items

	Three Months Ended March 31,	
	2012	2011
Accounts receivable	\$ (691)	\$ (1,312)
Linen in service	81	191
Prepaid expenses and deposits	(84)	32
Accounts payable and accrued liabilities	1,973	862
Income taxes payable	997	357
	<u>\$ 2,276</u>	<u>\$ 130</u>

10 Related party transactions

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 recorded at their exchange amounts and are subject to normal trade terms. For the period ended March 31, 2012, the Corporation incurred such fees totaling \$35 (2011 - \$35).

11 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 division are reported commencing July 1, 2011.

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 three months ended March 31, 2012, the Corporation has recorded revenue of \$14,491 (2011 - \$13,605) from these three major customers, representing 48.1% (2011 - 49.1%) of total revenue.

	Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
Healthcare	\$ 21,257	70.5%	\$ 19,941	72.0%
Hospitality	8,908	29.5%	7,745	28.0%
	<u>\$ 30,165</u>	<u>100.0%</u>	<u>\$ 27,686</u>	<u>100%</u>

12 Subsequent Events

Approval of Long-term Incentive Compensation

On May 2, 2012, the Board of Directors approved the recommendations of the Compensation, Nominating and Governance Committee with respect to long-term incentive ("LTI") share-based compensation for the senior management of the corporation. Total compensation awarded to employees was \$1,178 which will be satisfied with the issuance of shares from treasury.