K·BRO

Q2, 2012 Consolidated Financial Statements

dependable.

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K-Bro Linen Inc.

Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets		
Accounts receivable	$ 14,184	$ 14,902
Linen in service	8,810	8,182
Prepaid expenses and deposits	1,421	1,450
	24,415	24,534
Property, plant and equipment (note 4)	33,640	33,095
Intangible assets	11,994	13,340
Goodwill	20,456	20,456
	$ 90,505	$ 91,425
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 11,099	$ 14,790
Income taxes payable	1,098	1,857
Dividends payable to shareholders	676	642
	12,873	17,289
Long-term debt (note 5)	7,113	6,095
Unamortized lease inducements	463	512
Deferred income taxes	4,387	4,596
	$ 24,836	$ 28,492
SHAREHOLDERS' EQUITY		
Share capital	71,444	69,493
Contributed surplus	854	1,580
Deficit	(6,629)	(8,140)
	$ 65,669	$ 62,933
Contingencies and commitments (note 6)		
	$ 90,505	$ 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 June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
Revenue	**$ 31,526**	$ 28,871	**$ 61,691**	$ 56,557
Expenses				
Wages and benefits	**14,396**	13,362	**28,150**	26,156
Linen	**3,139**	2,961	**6,317**	5,899
Utilities	**1,911**	2,041	**3,891**	4,235
Delivery	**1,354**	1,152	**2,694**	2,349
Repairs and maintenance	**953**	938	**1,913**	1,859
Occupancy costs	**978**	938	**1,945**	1,885
Materials and supplies	**977**	973	**1,888**	1,827
Corporate	**1,414**	1,641	**2,892**	3,003
	25,122	24,006	**49,690**	47,213
EBITDA	**6,404**	4,865	**12,001**	9,344
Other expenses				
Depreciation of property, plant and equipment	**1,590**	1,395	**3,125**	2,970
Amortization of intangible assets	**673**	641	**1,346**	1,282
Financial charges	**67**	84	**150**	189
Loss (gain) on disposal of property, plant and equipment	**(10)**	20	**119**	26
	2,320	2,140	**4,740**	4,467
Earnings before income taxes	**4,084**	2,725	**7,261**	4,877
Current income tax expense	**1,041**	455	**2,038**	812
Deferred income tax expense (recovery)	**80**	267	**(209)**	507
Income tax expense	**1,121**	722	**1,829**	1,319
Net earnings and Comprehensive income	**2,963**	2,003	**5,432**	3,558
Net earnings per share:				
Basic	**$ 0.42**	$ 0.29	**$ 0.78**	$ 0.52
Diluted	**$ 0.42**	$ 0.29	**$ 0.78**	$ 0.51
Weighted average number of shares outstanding (note 7):				
Basic	**6,979,281**	6,917,854	**6,955,567**	6,904,451
Diluted	**7,009,458**	6,960,674	**6,985,744**	6,947,271

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					
	Number of shares	Amount	Contributed surplus	Shares held in trust	Deficit	Total equity
	#	$	$	$	$	$
As at December 31, 2011	7,006,365	71,400	1,580	(1,907)	(8,140)	62,933
Net earnings	-	-	-	-	5,432	5,432
Dividends declared (note 8)	-	-	-	-	(3,921)	(3,921)
Employee share based compensation expense	48,842	1,178	(726)	1,626	-	2,078
Unvested treasury shares held in trust	(36,626)	(853)	-	-	-	(853)
As at June 30, 2012	7,018,581	71,725	854	(281)	(6,629)	65,669

	Issued Capital					
	Number of shares/units	Amount	Contributed surplus	Shares held in trust	Deficit	Total equity
	#	$	$	$	$	$
As at December 31, 2010	7,004,973	71,400	1,141	(1,601)	(8,362)	62,578
Net earnings	-	-	-	-	3,558	3,558
Dividends declared (note 8)	-	-	-	-	(3,853)	(3,853)
Employee share based compensation expense	-	-	(130)	(306)	-	(436)
As at June 30, 2011	7,004,973	71,400	1,011	(1,907)	(8,657)	61,847

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)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
OPERATING ACTIVITIES		
Net earnings	$ 5,432	$ 3,558
Depreciation of property, plant and equipment	3,125	2,970
Amortization of intangible assets	1,346	1,282
Amortization of lease inducements	(22)	(23)
Loss on disposal of property, plant and equipment	119	26
Deferred income taxes	(209)	507
	9,791	8,320
Change in non-cash balances relating to operations (note 9)	(3,133)	(1,606)
Cash provided by operating activities	6,658	6,714
FINANCING ACTIVITIES		
Proceeds from revolving credit facility	3,113	4,310
Repayments to revolving credit facility	(2,095)	(2,066)
Dividends paid to shareholders	(3,887)	(3,212)
Cash used in financing activities	(2,869)	(968)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(3,847)	(1,464)
Proceeds from disposal of property, plant and equipment	58	28
Acquisition of businesses	-	(4,310)
Cash used in investing activities	(3,789)	(5,746)
Change in cash during the period	-	-
Cash, beginning of year	-	-
Cash, end of period	$ -	$ -
Supplementary cash flow information		
Interest paid	$ 66	$ 134
Income taxes paid	$ 2,797	$ -

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 and six months ended June 30, 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 August 9, 2012.

1 Statement of Compliance

These unaudited interim consolidated 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 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
Six-month period ended, June 30, 2012									
Opening net book amount	$ 125	$ 1,122	$ 24,528	$ 200	$ 641	$ 100	$ 5,687	$ 692	$ 33,095
Additions	-	79	3,641	12	-	77	18	20	3,847
Disposals	-	-	(143)	-	(34)	-	-	-	(177)
Depreciation charge	-	(42)	(2,321)	(37)	(45)	(44)	(636)	-	(3,125)
Closing net book amount	$ 125	$ 1,159	$ 25,705	$ 175	$ 562	$ 133	$ 5,069	$ 712	$ 33,640
At June 30, 2012									
Cost	$ 125	$ 1,354	$ 50,099	$ 614	$ 912	$ 1,619	$ 11,455	$ 712	$ 66,890
Accumulated depreciation	-	(195)	(24,394)	(439)	(350)	(1,486)	(6,386)	-	(33,250)
Net book amount	$ 125	$ 1,159	$ 25,705	$ 175	$ 562	$ 133	$ 5,069	$ 712	$ 33,640

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and six months ended June 30, 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	**-**	**3,113**	**3,113**
Repayment of debt	**-**	**(2,095)**	**(2,095)**
Closing Balance at June 30, 2012	**4,000**	**3,113**	**7,113**
Current portion of long-term debt	**-**	**-**	**-**
Non-current portion of long-term debt	**4,000**	**3,113**	**7,113**
	$ 4,000	**$ 3,113**	**$ 7,113**

[1] Bankers' Acceptances bear interest at 30 day BA rates plus 2.5% depending on certain financial ratios, renewable monthly until July 31, 2014. As at June 30, 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 July 31, 2014. As at June 30, 2012, the interest rate was 4.0%.

The Corporation has a revolving credit facility of up to $40,000 of which $7,363 is drawn (including letters of credit totaling $250 per note 6(a)) as at June 30, 2012. The agreement was for a two-year committed facility maturing in 2012 which was extended on the same terms through to July 31, 2014. Interest payments only are due during the term of the facility.

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.

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and six months ended June 30, 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	$ 2,754
2013	3,653
2014	3,494
2015	2,995
2016	2,634
Subsequent	6,909
	$ 22,439

(ii) Linen purchase commitments

At June 30, 2012, the Corporation was committed to linen expenditure obligations in the amount of $2,626 (2011 – $3,854) to be satisfied during the next year.

(iii) Property, plant and equipment commitments

At June 30, 2012, the Corporation was committed to capital expenditure obligations in the amount of $1,907 (2011 – $381) to be satisfied during the next year.

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and six months ended June 30, 2012 and 2011)

7 Weighted average number of shares outstanding

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011
Balance, beginning of period	**7,006,365**	7,004,973
Weighted average unvested shares issued for LTI	**(27,084)**	(87,119)
Basic weighted average shares for the period	**6,979,281**	6,917,854
Basic weighted average shares for the period	**6,979,281**	6,917,854
Dilutive effect of LTI shares	**30,177**	42,820
Fully diluted weighted average shares for the period	**7,009,458**	6,960,674

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Balance, beginning of year	**7,006,365**	7,004,973
Weighted average unvested shares issued for LTI	**(50,798)**	(100,522)
Basic weighted average shares for the period	**6,955,567**	6,904,451
Basic weighted average shares for the period	**6,955,567**	6,904,451
Dilutive effect of LTI shares	**30,177**	42,820
Fully diluted weighted average shares for the period	**6,985,744**	6,947,271

8 Dividends to Shareholders

During the three months ended June 30, 2012, the Corporation declared total dividends to shareholders of $1,994 or $0.283 per share (2011 - $1,927 or $0.275 per share). During the six months ended June 30, 2012, the Corporation declared total dividends to shareholders of $3,921 or $0.558 per share (2011 - $3,853 or $0.550 per share).

9 Net change in non-cash working capital items

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Accounts receivable	**$ 718**	$ (491)
Linen in service	**(628)**	(237)
Prepaid expenses and deposits	**29**	62
Accounts payable and accrued liabilities	**(2,493)**	(1,752)
Income taxes payable	**(759)**	812
	$ (3,133)	$ (1,606)

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and six months ended June 30, 2012 and 2011)

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 three months ended June 30, 2012, the Corporation incurred such fees totaling $35 (2011 – $35). For the six months ended June 30, 2012, the Corporation incurred such fees totaling $69 (2011 – $69).

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 March 31, 2013; this contract has been renegotiated for a 10 year term expiring March 31, 2023. 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 six months ended June 30, 2012, the Corporation has recorded revenue of $29,518 (2011 – $27,281) from these three major customers, representing 47.8% (2011 – 47.4%) of total revenue.

	Three Months Ended June 30, 2012			Three Months Ended June 30, 2011		
Healthcare	**$**	**21,713**	**68.9%**	$	20,042	69.4%
Hospitality		**9,813**	**31.1%**		8,829	30.6%
	$	**31,526**	**100.0%**	$	28,871	100%

	Six Months Ended June 30, 2012			Six Months Ended June 30, 2011		
Healthcare	**$**	**42,970**	**69.7%**	$	39,983	70.7%
Hospitality		**18,721**	**30.3%**		16,574	29.3%
	$	**61,691**	**100.0%**	$	56,557	100%

12 Subsequent Events

a) Dividend

On July 13, 2012, the Board declared an eligible dividend of $0.0958 per common share of the Corporation payable on August 15, 2012 payable to shareholders of record July 31, 2012.

b) Asset Purchase Commitments

Subsequent to June 30, 2012, the Corporation entered into additional purchase commitments for the acquisition of laundry equipment for an estimated value of $14.5 million. The Corporation expects to take delivery of the new equipment over the next 12 months which will replace assets that have reached the end of their useful lives.