



Q2, 2013
Condensed
Consolidated
Financial
Statements

dependable.

K-Bro Linen Inc.

Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	June 30, 2013	December 31, 2012
ASSETS		
Current assets		
Accounts receivable	\$ 14,377	\$ 14,197
Linen in service	8,994	8,888
Prepaid expenses and deposits	1,062	1,071
	24,433	24,156
Property, plant and equipment (note 3)	49,404	39,175
Intangible assets	9,933	11,013
Goodwill	20,456	20,456
	\$ 104,226	\$ 94,800
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 12,649	\$ 13,001
Income taxes payable	137	2,415
Dividends payable to shareholders	680	676
	13,466	16,092
Long-term debt (note 4)	15,338	5,818
Unamortized lease inducements	366	415
Deferred income taxes	5,090	4,790
	\$ 34,260	\$ 27,115
SHAREHOLDERS' EQUITY		
Share capital	72,158	71,444
Contributed surplus	1,192	1,209
Deficit	(3,384)	(4,968)
	\$ 69,966	\$ 67,685
Contingencies and commitments (note 5)	\$ 104,226	\$ 94,800

The accompanying notes are an integral part of these interim 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,	
	2013	2012	2013	2012
Revenue	\$ 32,660	\$ 31,526	\$ 64,307	\$ 61,691
Expenses				
Wages and benefits	14,936	14,396	29,570	28,150
Linen	3,464	3,139	6,704	6,317
Utilities	2,121	1,911	4,177	3,891
Delivery	1,411	1,354	2,948	2,694
Repairs and maintenance	1,013	953	2,075	1,913
Materials and supplies	1,033	977	1,988	1,888
Occupancy costs	971	978	1,918	1,945
Corporate	1,454	1,414	2,766	2,892
	26,403	25,122	52,146	49,690
EBITDA	6,257	6,404	12,161	12,001
Other expenses				
Depreciation of property, plant and equipment	1,411	1,590	2,834	3,125
Amortization of intangible assets	529	673	1,080	1,346
Financial charges	127	67	250	150
Loss (gain) on disposal of property, plant and equipment	78	(10)	78	119
	2,145	2,320	4,242	4,740
Earnings before income taxes	4,112	4,084	7,919	7,261
Current income tax expense	1,026	1,041	1,971	2,038
Deferred income tax expense (recovery)	200	80	300	(209)
Income tax expense	1,226	1,121	2,271	1,829
Net earnings and Comprehensive income	2,886	2,963	5,648	5,432
Net earnings per share:				
Basic	\$ 0.41	\$ 0.42	\$ 0.81	\$ 0.78
Diluted	\$ 0.41	\$ 0.42	\$ 0.80	\$ 0.78
Weighted average number of shares outstanding:				
Basic	7,020,441	6,979,281	7,013,765	6,955,567
Diluted	7,038,100	7,009,458	7,029,605	6,985,744

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

Condensed Consolidated Statements of Changes in Equity

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

	Issued Capital				Contributed surplus	Deficit	Total equity
	Number of shares	Amount	Shares held in trust	Total Share Capital			
	#	\$	\$	\$			
As at December 31, 2012	7,018,581	71,725	(281)	71,444	1,209	(4,968)	67,685
Net earnings	-	-	-	-	-	5,648	5,648
Dividends declared (note 6)	-	-	-	-	-	(4,064)	(4,064)
Employee share based compensation expense	40,136	1,351	-	1,351	(654)	-	697
Unvested treasury shares held in trust	(26,978)	(918)	-	(918)	918	-	-
Vested shares held in trust	-	-	281	281	(281)	-	-
As at June 30, 2013	7,031,739	72,158	-	72,158	1,192	(3,384)	69,966

	Issued Capital				Contributed surplus	Deficit	Total equity
	Number of shares	Amount	Shares held in trust	Total Share Capital			
	#	\$	\$	\$			
As at December 31, 2011	7,006,365	71,400	(1,907)	69,493	1,580	(8,140)	62,933
Net earnings	-	-	-	-	-	5,432	5,432
Dividends declared (note 6)	-	-	-	-	-	(3,921)	(3,921)
Employee share based compensation expense	48,842	1,178	1,626	2,804	(726)	-	2,078
Unvested treasury shares held in trust	(36,626)	(853)	-	(853)	-	-	(853)
As at June 30, 2012	7,018,581	71,725	(281)	71,444	854	(6,629)	65,669

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

Condensed Consolidated Statements of Cash Flow

(unaudited, thousands of Canadian dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
OPERATING ACTIVITIES				
Net earnings	\$ 2,886	\$ 2,963	\$ 5,648	\$ 5,432
Depreciation of property, plant and equipment	1,411	1,591	2,834	3,125
Amortization of intangible assets	529	673	1,080	1,346
Amortization of lease inducements	(23)	(24)	(49)	(48)
Share-based compensation expense	377	250	697	752
Loss (gain) on disposal of property, plant and equipment	78	(10)	78	119
Deferred income taxes (recovery)	200	80	300	(209)
	5,457	5,523	10,588	10,517
Change in non-cash balances relating to operations (note 7)	(6,956)	(5,518)	(2,907)	(3,859)
Cash provided by operating activities	(1,499)	5	7,681	6,658
FINANCING ACTIVITIES				
Net proceeds from revolving credit facility	10,176	3,113	9,520	1,018
Dividends paid to shareholders	(2,032)	(1,960)	(4,060)	(3,887)
Cash used in financing activities	8,144	1,153	5,460	(2,869)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(6,689)	(1,170)	(13,185)	(3,847)
Proceeds from disposal of property, plant and equipment	44	12	44	58
Cash used in investing activities	(6,645)	(1,158)	(13,141)	(3,789)
Change in cash during the period	-	-	-	-
Cash, beginning of year	-	-	-	-
Cash, end of period	\$ -	\$ -	\$ -	\$ -
Supplementary cash flow information				
Interest paid	\$ 98	\$ 32	\$ 170	\$ 66
Income taxes paid	\$ 3,770	\$ 2,797	\$ 4,241	\$ 2,797

The accompanying notes are an integral part of these interim 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, 2013 and 2012)

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 condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors ("the Board") on August 9, 2013.

1 Basis of Presentation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as applicable to interim financial reports including IAS 34, *Interim Financial Reporting*, and should be read in conjunction with the annual consolidated audited financial statements for the year ended December 31, 2012 which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board. The accounting policies followed in these unaudited interim condensed consolidated financial statements are consistent with those of the previous year, except as described below.

2 Significant accounting policies adopted January 1, 2013

The Corporation has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

- IFRS 10, *Consolidated Financial Statements*, replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation - Special Purpose Entities*. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. The Corporation assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.
- IFRS 13, *Fair value measurement*, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the assets or liability under current market conditions, including assumptions about risk. The Corporation adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

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, 2013 and 2012)

3 Property, plant and equipment

	Land	Buildings	Laundry Equipment ⁽¹⁾	Office Equipment	Delivery Equipment	Computer Equipment	Leashold Improvements ⁽²⁾	Spare Parts	Total
Year ended, December 31, 2012									
Opening net book amount	\$ 125	\$ 1,122	\$ 24,528	\$ 200	\$ 641	\$ 100	\$ 5,687	\$ 692	\$ 33,095
Additions	-	103	12,249	15	-	95	107	81	12,650
Disposals	-	-	(184)	-	(34)	(2)	-	-	(220)
Depreciation charge	-	(85)	(4,737)	(63)	(90)	(88)	(1,287)	-	(6,350)
Closing net book amount	\$ 125	\$ 1,140	\$ 31,856	\$ 152	\$ 517	\$ 105	\$ 4,507	\$ 773	\$ 39,175

At December 31, 2012									
Cost	\$ 125	\$ 1,377	\$ 58,637	\$ 617	\$ 913	\$ 1,636	\$ 11,544	\$ 773	\$ 75,622
Accumulated depreciation	-	(237)	(26,781)	(465)	(396)	(1,531)	(7,037)	-	(36,447)
Net book amount	\$ 125	\$ 1,140	\$ 31,856	\$ 152	\$ 517	\$ 105	\$ 4,507	\$ 773	\$ 39,175

Six month period ended, June 30, 2013									
Opening net book amount	\$ 125	\$ 1,140	\$ 31,856	\$ 152	\$ 517	\$ 105	\$ 4,507	\$ 773	\$ 39,175
Additions	-	23	6,733	12	41	44	6,231	100	13,185
Disposals	-	-	(75)	-	(47)	-	-	-	(122)
Transfers	-	-	-	-	-	-	-	-	-
Depreciation charge	-	(44)	(2,071)	(16)	(36)	(43)	(623)	-	(2,834)
Closing net book amount	\$ 125	\$ 1,119	\$ 36,443	\$ 148	\$ 475	\$ 106	\$ 10,115	\$ 873	\$ 49,404

At June 30, 2013									
Cost	\$ 125	\$ 1,399	\$ 65,092	\$ 629	\$ 885	\$ 1,678	\$ 17,775	\$ 873	\$ 88,457
Accumulated depreciation	-	(280)	(28,649)	(481)	(410)	(1,572)	(7,660)	-	(39,053)
Net book amount	\$ 125	\$ 1,119	\$ 36,443	\$ 148	\$ 475	\$ 106	\$ 10,115	\$ 873	\$ 49,404

⁽¹⁾ Included in additions to laundry equipment are assets under development in the amount of \$4,789. These assets are not available for service and accordingly are not presently being depreciated.

⁽²⁾ Included in additions to leasehold improvements are assets under development in the amount of \$6,208. These assets are not available for service and accordingly are not presently being depreciated.

4 Long-term debt

	Bankers Acceptances ⁽¹⁾	Prime Rate Loan ⁽²⁾	Total Long Term Debt
At January 1, 2012	\$ 4,000	\$ 2,095	\$ 6,095
Repayment of debt	-	(277)	(277)
Closing Balance at December 31, 2012	4,000	1,818	5,818

At January 1, 2013	\$ 4,000	\$ 1,818	\$ 5,818
Draws	-	9,520	9,520
Closing Balance at June 30, 2013	4,000	11,338	15,338

⁽¹⁾ Bankers' Acceptances bear interest at 30 day BA rates plus 1.75% depending on certain financial ratios, renewable monthly until July 31, 2016. As at June 30, 2013, the interest rate was 2.92%.

⁽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, 2016. As at June 30, 2013, the interest rate was 4.0%.

The Corporation has a revolving credit facility of up to \$40,000 of which \$15,988 is drawn (including letters of credit totaling \$650) as at June 30, 2013. During the quarter the credit facility was renewed on substantially the same terms through to July 31, 2016. Interest payments only are due during the term of the facility.

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, 2013 and 2012)

5 Contingencies and commitments

a) Contingencies – Letters of credit

The Corporation has standby letters of credit issued as part of normal business operations in the amount of \$650 (December 31, 2012 – \$400) which will remain outstanding for an indefinite period of time.

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 and thereafter are as follows:

	2013	2012
Remainder of 2013	2,321	4,160
2014	4,272	4,234
2015	3,723	3,693
2016	3,351	3,323
2017	3,006	3,003
Subsequent	12,688	12,688
	\$ 29,361	\$ 31,101

(ii) Linen purchase commitments

At June 30, 2013, the Corporation was committed to linen expenditure obligations in the amount of \$3,268 (December 31, 2012 – \$2,551) to be incurred within the next year.

(iii) Property, plant and equipment commitments

At June 30, 2013, the Corporation was committed to capital expenditure obligations in the amount of \$9,967 (December 31, 2012 – \$20,332) to be incurred within the next year.

6 Dividends to shareholders

During the three months ended June 30, 2013, the Corporation declared total dividends to shareholders of \$2,036 or \$0.288 per share (June 30, 2012 - \$1,994 or \$0.283 per share). During the six months ended June 30, 2013, the Corporation declared total dividends to shareholders of \$4,064 or \$0.574 per share (2012 - \$3,921 or \$0.558 per share).

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, 2013 and 2012)

7 Net change in non-cash working capital items

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Accounts receivable	\$ (29)	\$ 1,409	\$ (180)	\$ 718
Linen in service	(212)	(709)	(106)	(628)
Prepaid expenses and deposits	94	113	9	29
Accounts payable and accrued liabilities	(4,055)	(4,575)	(352)	(3,219)
Income taxes payable	(2,754)	(1,756)	(2,278)	(759)
	(6,956)	\$ (5,518)	\$ (2,907)	\$ (3,859)

8 Fair value of financial instruments

The Corporation's financial instruments at June 30, 2013 consist of accounts receivable, accounts payable and accrued liabilities, dividends payable to shareholders, and long-term debt. The carrying value of accounts receivable, accounts payable and accrued liabilities, and dividends 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.

9 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, 2013, the Corporation incurred such fees totaling \$35 (2012 - \$35). For the six months ended June 30, 2013, the Corporation incurred such fees totaling \$69 (2012 - \$69).

10 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.

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 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, 2013, the Corporation has recorded revenue of \$29,698 (2012 - \$29,518) from these three major customers, representing 46.2% (2012 - 47.8%) of total revenue.

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, 2013 and 2012)

10 Segmented information (continued)

	Three Months Ended June 30, 2013		Three Months Ended June 30, 2012	
Healthcare	\$ 22,124	67.7%	\$ 21,713	68.9%
Hospitality	10,536	32.3%	9,813	31.1%
	\$ 32,660	100.0%	\$ 31,526	100%

	Six Months Ended June 30, 2013		Six Months Ended June 30, 2012	
Healthcare	\$ 44,412	69.1%	\$ 42,970	69.7%
Hospitality	19,895	30.9%	18,721	30.3%
	\$ 64,307	100.0%	\$ 61,691	100%

11 Subsequent events

On July 15, 2013, the Board declared an eligible dividend of \$0.0958 per common share of the Corporation payable on August 15, 2013 payable to shareholders of record July 31, 2013.