



Q3, 2012
Consolidated
Financial
Statements

dependable.

K-Bro Linen Inc.

Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets		
Accounts receivable	\$ 14,661	\$ 14,902
Linen in service	9,192	8,182
Prepaid expenses and deposits	1,638	1,450
	25,491	24,534
Property, plant and equipment (note 4)	36,899	33,095
Intangible assets	11,320	13,340
Goodwill	20,456	20,456
	\$ 94,166	\$ 91,425
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 12,121	\$ 14,790
Income taxes payable	1,762	1,857
Dividends payable to shareholders	676	642
	14,559	17,289
Long-term debt (note 5)	7,787	6,095
Unamortized lease inducements	439	512
Deferred income taxes	4,604	4,596
	\$ 27,389	\$ 28,492
SHAREHOLDERS' EQUITY		
Share capital	71,444	69,493
Contributed surplus	1,031	1,580
Deficit	(5,698)	(8,140)
	\$ 66,777	\$ 62,933
Contingencies and commitments (note 6)	\$ 94,166	\$ 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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue	\$ 33,013	\$ 31,144	\$ 94,704	\$ 87,701
Expenses				
Wages and benefits	15,523	14,412	43,673	40,568
Linen	3,126	2,960	9,443	8,859
Utilities	2,216	2,357	6,107	6,592
Delivery	1,422	1,252	4,116	3,601
Materials and supplies	1,026	928	2,914	2,754
Occupancy costs	960	959	2,905	2,844
Repairs and maintenance	931	959	2,844	2,818
Corporate	1,070	1,271	3,962	4,274
	26,274	25,098	75,964	72,310
EBITDA	6,739	6,046	18,740	15,391
Other expenses				
Depreciation of property, plant and equipment	1,609	1,559	4,734	4,530
Amortization of intangible assets	674	673	2,020	1,955
Financial charges	272	131	422	319
Loss on disposal of property, plant and equipment	1	4	120	30
	2,556	2,367	7,296	6,834
Earnings before income taxes	4,183	3,679	11,444	8,557
Current income tax expense	1,007	617	3,045	1,429
Deferred income tax expense	217	336	8	843
Income tax expense	1,224	953	3,053	2,272
Net earnings and Comprehensive income	2,959	2,726	8,391	6,285
Net earnings per share:				
Basic	\$ 0.42	\$ 0.39	\$ 1.20	\$ 0.91
Diluted	\$ 0.42	\$ 0.39	\$ 1.20	\$ 0.90
Weighted average number of shares outstanding (note 7):				
Basic	7,007,015	6,930,462	6,972,843	6,913,217
Diluted	7,040,017	6,982,501	7,005,845	6,965,256

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	-	-	-	-	8,391	8,391
Dividends declared (note 8)	-	-	-	-	(5,949)	(5,949)
Employee share based compensation expense	48,842	1,178	(549)	1,626	-	2,255
Unvested treasury shares held in trust	(36,626)	(853)	-	-	-	(853)
As at September 30, 2012	7,018,581	71,725	1,031	(281)	(5,698)	66,777

	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	-	-	-	-	6,285	6,285
Dividends declared (note 8)	-	-	-	-	(5,780)	(5,780)
Employee share based compensation expense	-	-	139	(306)	-	(167)
As at September 30, 2011	7,004,973	71,400	1,280	(1,907)	(7,857)	62,916

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)

	Nine Months Ended September 30,	
	2012	2011
OPERATING ACTIVITIES		
Net earnings	\$ 8,391	\$ 6,285
Depreciation of property, plant and equipment	4,734	4,530
Amortization of intangible assets	2,020	1,955
Amortization of lease inducements	(34)	(34)
Loss on disposal of property, plant and equipment	120	30
Deferred income taxes	8	843
	15,239	13,609
Change in non-cash balances relating to operations (note 9)	(2,358)	1,322
Cash provided by operating activities	12,881	14,931
FINANCING ACTIVITIES		
Proceeds from revolving credit facility	3,787	4,317
Repayments to revolving credit facility	(2,095)	(7,856)
Dividends paid to shareholders	(5,915)	(5,138)
Cash used in financing activities	(4,223)	(8,677)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(8,716)	(1,964)
Proceeds from disposal of property, plant and equipment	58	27
Acquisition of businesses	-	(4,317)
Cash used in investing activities	(8,658)	(6,254)
Change in cash during the period	-	-
Cash, beginning of year	-	-
Cash, end of period	\$ -	\$ -
Supplementary cash flow information		
Interest paid	\$ 103	\$ 219
Income taxes paid	\$ 3,140	\$ 5

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 nine months ended September 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 November 7, 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 as prepared as at and for the year ended December 31, 2011.

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 ⁽¹⁾	Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements	Spare Parts	Total
Nine-month period ended, September 30, 2012									
Opening net book amount	\$ 125	\$ 1,122	\$ 24,528	\$ 200	\$ 641	\$ 100	\$ 5,687	\$ 692	\$ 33,095
Additions	-	86	8,485	15	-	85	34	11	8,716
Disposals	-	-	(144)	-	(34)	-	-	-	(178)
Depreciation charge	-	(64)	(3,527)	(52)	(68)	(66)	(957)	-	(4,734)
Closing net book amount	\$ 125	\$ 1,144	\$ 29,342	\$ 163	\$ 539	\$ 119	\$ 4,764	\$ 703	\$ 36,899
At September 30, 2012									
Cost	\$ 125	\$ 1,360	\$ 54,944	\$ 617	\$ 913	\$ 1,626	\$ 11,471	\$ 703	\$ 71,759
Accumulated depreciation	-	(216)	(25,602)	(454)	(374)	(1,507)	(6,707)	-	(34,860)
Net book amount	\$ 125	\$ 1,144	\$ 29,342	\$ 163	\$ 539	\$ 119	\$ 4,764	\$ 703	\$ 36,899

⁽¹⁾ Included in additions to laundry equipment are assets under development in the amount of \$3,991. These assets are not available for service and accordingly are not presently being depreciated.

Notes to the Condensed Consolidated Financial Statements

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

5 Long-term debt

	Bankers Acceptances ⁽¹⁾	Prime Rate Loan ⁽²⁾	Total Long Term Debt
At January 1, 2012	\$ 4,000	\$ 2,095	\$ 6,095
New debt	-	3,787	3,787
Repayment of debt	-	(2,095)	(2,095)
Closing Balance at September 30, 2012	4,000	3,787	7,787
Current portion of long-term debt	-	-	-
Non-current portion of long-term debt	\$ 4,000	\$ 3,787	\$ 7,787

⁽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 September 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 September 30, 2012, the interest rate was 4.0%.

The Corporation has a revolving credit facility of up to \$40,000 of which \$8,187 is drawn (including letters of credit totaling \$400 per note 6(a)) as at September 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 standby letters of credit issued as part of normal business operations in the amount of \$400 (2011 – \$250) 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 are as follows:

2012	\$ 1,480
2013	3,701
2014	3,573
2015	3,035
2016	2,670
Subsequent	6,951
	\$ 21,410

(ii) Linen purchase commitments

At September 30, 2012, the Corporation was committed to linen expenditure obligations in the amount of \$4,195 (2011 – \$3,287) to be incurred within the next year.

(iii) Property, plant and equipment commitments

At September 30, 2012, the Corporation was committed to capital expenditure obligations in the amount of \$21,832 (2011 – \$2,160) to be incurred within the next year.

Notes to the Condensed Consolidated Financial Statements

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

7 Weighted average number of shares outstanding

	Three Months Ended September 30,	
	2012	2011
Balance, beginning of period	7,006,365	7,004,973
Weighted average unvested shares issued for LTI	650	(74,511)
Basic weighted average shares for the period	7,007,015	6,930,462
Basic weighted average shares for the period	7,007,015	6,930,462
Dilutive effect of LTI shares	33,002	52,039
Fully diluted weighted average shares for the period	7,040,017	6,982,501
	Nine Months Ended September 30,	
	2012	2011
Balance, beginning of year	7,006,365	7,004,973
Weighted average unvested shares issued for LTI	(33,522)	(91,756)
Basic weighted average shares for the period	6,972,843	6,913,217
Basic weighted average shares for the period	6,972,843	6,913,217
Dilutive effect of LTI shares	33,002	52,039
Fully diluted weighted average shares for the period	7,005,845	6,965,256

8 Dividends to Shareholders

During the three months ended September 30, 2012, the Corporation declared total dividends to shareholders of \$2,028 or \$0.288 per share (2011 - \$1,927 or \$0.275 per share). During the nine months ended September 30, 2012, the Corporation declared total dividends to shareholders of \$5,949 or \$0.846 per share (2011 - \$5,780 or \$0.825 per share).

9 Net change in non-cash working capital items

	Nine Months Ended September 30,	
	2012	2011
Accounts receivable	\$ 241	\$ 1,275
Linen in service	(1,010)	(551)
Prepaid expenses and deposits	(188)	(322)
Accounts payable and accrued liabilities	(1,306)	(504)
Income taxes payable	(95)	1,424
	\$ (2,358)	\$ 1,322

Notes to the Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and nine months ended September 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 September 30, 2012, the Corporation incurred such fees totaling \$35 (2011 – \$35). For the nine months ended September 30, 2012, the Corporation incurred such fees totaling \$104 (2011 – \$104).

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 nine months ended September 30, 2012, the Corporation has recorded revenue of \$44,309 (2011 – \$40,732) from these three major customers, representing 46.8% (2011 – 46.4%) of total revenue.

	Three Months Ended September 30, 2012		Three Months Ended September 30, 2011			
Healthcare	\$	21,418	64.9%	\$	19,730	63.4%
Hospitality		11,595	35.1%		11,414	36.6%
	\$	33,013	100.0%	\$	31,144	100%

	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011			
Healthcare	\$	64,388	68.0%	\$	59,713	68.1%
Hospitality		30,316	32.0%		27,988	31.9%
	\$	94,704	100.0%	\$	87,701	100%

12 Subsequent Events

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