



Consolidated  
Financial  
Statements  
Year Ended  
December 31,  
2012

**dependable.**

K-Bro Linen Inc.



March 13, 2013

## **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, 2012 and December 31, 2011 and the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, 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 audit 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.

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*PricewaterhouseCoopers LLP  
TD Tower, 10088 102 Avenue NW, Suite 1501, Edmonton, Alberta, Canada T5J 3N5  
T: +1 780 441 6700, F: +1 780 441 6776*



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, 2012 and December 31, 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

**(Signed) “PricewaterhouseCoopers LLP”**

**Chartered Accountants**

Edmonton, Canada

# Consolidated Statements of Financial Position

(thousands of Canadian dollars)

	December 31, 2012	December 31, 2011
<b>ASSETS</b>		
<b>Current assets</b>		
Accounts receivable	\$ 14,197	\$ 14,902
Linen in service	8,888	8,182
Prepaid expenses and deposits	1,071	1,450
	24,156	24,534
<b>Property, plant and equipment</b> (note 6)	39,175	33,095
<b>Intangible assets</b> (note 7)	11,013	13,340
<b>Goodwill</b> (note 8)	20,456	20,456
	\$ 94,800	\$ 91,425
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 13,001	\$ 14,790
Income taxes payable	2,415	1,857
Dividends payable to shareholders	676	642
	16,092	17,289
<b>Long-term debt</b> (note 9)	5,818	6,095
<b>Unamortized lease inducements</b> (note 11)	415	512
<b>Deferred income taxes</b> (note 12)	4,790	4,596
	\$ 27,115	\$ 28,492
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b> (note 14)	71,444	69,493
<b>Contributed surplus</b>	1,209	1,580
<b>Deficit</b>	(4,968)	(8,140)
	\$ 67,685	\$ 62,933
<b>Contingencies and commitments</b> (note 13)	\$ 94,800	\$ 91,425

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

# Consolidated Statements of Earnings & Comprehensive Income

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

Years ended December 31	2012	2011
<b>Revenue</b>	\$ 126,290	\$ 116,859
<b>Expenses</b>		
Wages and benefits	58,248	54,185
Linen	12,706	12,031
Utilities	8,276	8,688
Delivery	5,583	4,900
Materials and supplies	4,058	3,765
Occupancy costs	3,896	3,810
Repairs and maintenance	3,832	3,843
Corporate	5,174	5,691
	101,773	96,913
<b>EBITDA (note 19)</b>	24,517	19,946
<b>Other expenses</b>		
Depreciation of property, plant and equipment	6,350	5,938
Amortization of intangible assets	2,327	2,628
Financial charges	357	412
Loss on disposal of property, plant and equipment	159	80
	9,193	9,058
<b>Earnings before income taxes</b>	15,324	10,888
Current income tax expense	3,981	1,862
Deferred income tax expense	194	1,098
<b>Income tax expense (note 12)</b>	4,175	2,960
<b>Net earnings and Comprehensive income</b>	11,149	7,928
<b>Net earnings per share:</b>		
Basic	\$ 1.60	\$ 1.15
Diluted	\$ 1.59	\$ 1.14
<b>Weighted average number of shares outstanding</b> (note 14):		
Basic	6,981,432	6,918,955
Diluted	6,993,561	6,980,489

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

# Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)

	Issued Capital		Contributed surplus	Shares held in trust	Deficit	Total equity
	Number of shares	Amount				
	#	\$				
<b>As at December 31, 2011</b>	7,006,365	71,400	1,580	(1,907)	(8,140)	62,933
Net earnings	-	-	-	-	11,149	11,149
Dividends declared (note 16)	-	-	-	-	(7,977)	(7,977)
Employee share based compensation expense	48,842	1,178	(371)	1,626	-	2,433
Unvested treasury shares held in trust	(36,626)	(853)	-	-	-	(853)
<b>As at December 31, 2012</b>	<b>7,018,581</b>	<b>71,725</b>	<b>1,209</b>	<b>(281)</b>	<b>(4,968)</b>	<b>67,685</b>

	Issued Capital		Contributed surplus	Shares held in trust	Deficit	Total equity
	Number of shares/units	Amount				
	#	\$				
<b>As at December 31, 2010</b>	7,004,973	71,400	1,141	(1,601)	(8,362)	62,578
Net earnings	-	-	-	-	7,928	7,928
Dividends declared (note 16)	-	-	-	-	(7,706)	(7,706)
Employee share based compensation expense	1,392	-	439	(306)	-	133
<b>As at December 31, 2011</b>	<b>7,006,365</b>	<b>71,400</b>	<b>1,580</b>	<b>(1,907)</b>	<b>(8,140)</b>	<b>62,933</b>

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

# Consolidated Statements of Cash Flow

(thousands of Canadian dollars)

Years ended December 31	2012	2011
<b>OPERATING ACTIVITIES</b>		
<b>Net earnings</b>	\$ 11,149	\$ 7,928
Depreciation of property, plant and equipment	6,350	5,938
Amortization of intangible assets	2,327	2,628
Amortization of lease inducements	(54)	(54)
Share-based compensation expense	1,105	1,661
Loss on disposal of property, plant and equipment	159	80
Deferred income taxes	194	1,098
	21,230	19,279
Change in non-cash balances relating to operations (note 17)	(421)	(419)
Cash provided by operating activities	20,809	18,860
<b>FINANCING ACTIVITIES</b>		
Acquisition of business (note 5)	-	4,317
Repayments to revolving credit facility	(277)	(8,985)
Dividends paid to shareholders	(7,943)	(7,064)
Cash used in financing activities	(8,220)	(11,732)
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(12,650)	(2,847)
Proceeds from disposal of property, plant and equipment	61	36
Acquisition of business (note 5)	-	(4,317)
Cash used in investing activities	(12,589)	(7,128)
Change in cash during the year	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -
<b>Supplementary cash flow information</b>		
Interest paid	\$ 143	\$ 274
Income taxes paid	\$ 3,423	\$ 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, 2012 and 2011)

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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 (the "Consolidated Financial Statements") were approved and authorized for issuance by the Board of Directors ("the Board") on March 13, 2013.

## 1 Basis of Presentation

The consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in note 4.

## 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(o) (ii) and (iii)). All 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.



# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

## 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. 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 to allocate their cost over their estimated useful lives 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.

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

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## **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**

The tax expense for the year comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax provision is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date of the taxation authority where the Corporation operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

## **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. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. 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 a potential impairment.

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.

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

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## **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(o) (ii) and (iii)).

## **n) Foreign Currency Translation**

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "financial charges".

## **o) 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 base salary. 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) Former equity-based compensation plan**

The officers and key employees were eligible to participate in a past long-term incentive plan ("LTIP"), which involved equity-settled share-based payments. The Corporation 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 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.

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

## iii) Existing equity-based compensation plan of the Corporation

On June 16, 2011, the Shareholders of the Corporation approved a new Long-term Incentive Plan ("LTI"). Under the LTI, 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 LTI. All awards issued under the provisions of the LTI 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 LTI Shares held by the Trustee in respect of unvested grants will vest immediately. LTI participants are entitled to receive dividends on all common shares granted under the LTI whether vested or unvested. In most circumstances, unvested common shares held by the LTI 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 LTI.

## p) 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
<b>Financial assets</b>		
Accounts receivable	Loans and receivables	Amortized cost
<b>Financial liabilities</b>		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

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## 3 Accounting standards issued and not applied

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* addresses classification and measurement of financial assets. IFRS 9 replaces the model for measuring equity instruments and will require recognition of the Corporation's investment in the LTIP trust (see note 15) at fair value through earnings. This standard is effective for accounting periods beginning on or after January 1, 2015.
- 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. This standard is effective for accounting periods beginning on or after January 1, 2013.
- IFRS 12, *Disclosures 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. This standard is effective for accounting periods beginning on or after January 1, 2013.
- IFRS 13, *Fair value measurement* defines fair value and provides a single IFRS framework for the measurement and disclosure of fair value within IFRS standards. This standard is effective for accounting periods beginning on or after January 1, 2013.

## 4 Critical accounting estimates and judgments

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.

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

## 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

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:

Cash consideration <sup>(1)</sup>	\$	4,317
<i>Net assets acquired:</i>		
Working capital, net	\$	332
Property, plant & equipment		2,445
Intangible assets		769
Future income tax liabilities		(52)
Goodwill		823
	\$	4,317

<sup>(1)</sup> Of the cash consideration payable, \$632 was deposited with an escrow agent to be released to the vendor upon the confirmation that certain representations and warranties are satisfied and earnings targets are achieved within the 12-24 month period subsequent to the acquisition. As of June 30, 2012 the earnings targets were achieved and the contingent consideration was paid in full.

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.

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

## Business Acquisitions (continued)

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.

## 6 Property, plant and equipment

	Land	Buildings	Laundry Equipment <sup>(1)</sup>	Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements	Spare Parts	Total
<b>Year ended, December 31, 2011</b>									
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)
<b>Closing net book amount</b>	<b>\$ 125</b>	<b>\$ 1,122</b>	<b>\$ 24,528</b>	<b>\$ 200</b>	<b>\$ 641</b>	<b>\$ 100</b>	<b>\$ 5,687</b>	<b>\$ 692</b>	<b>\$ 33,095</b>
<b>At December 31, 2011</b>									
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)
<b>Net book amount</b>	<b>\$ 125</b>	<b>\$ 1,122</b>	<b>\$ 24,528</b>	<b>\$ 200</b>	<b>\$ 641</b>	<b>\$ 100</b>	<b>\$ 5,687</b>	<b>\$ 692</b>	<b>\$ 33,095</b>
<b>Year ended, December 31, 2012</b>									
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)
<b>Closing net book amount</b>	<b>\$ 125</b>	<b>\$ 1,140</b>	<b>\$ 31,856</b>	<b>\$ 152</b>	<b>\$ 517</b>	<b>\$ 105</b>	<b>\$ 4,507</b>	<b>\$ 773</b>	<b>\$ 39,175</b>
<b>At December 31, 2012</b>									
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)
<b>Net book amount</b>	<b>\$ 125</b>	<b>\$ 1,140</b>	<b>\$ 31,856</b>	<b>\$ 152</b>	<b>\$ 517</b>	<b>\$ 105</b>	<b>\$ 4,507</b>	<b>\$ 773</b>	<b>\$ 39,175</b>

<sup>(1)</sup>Included in additions to laundry equipment are assets under development in the amount of \$5,787. These assets are not available for service and accordingly are not presently being depreciated.

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

## 7 Intangible assets

	Healthcare Contracts	Hospitality Contracts	Computer Software	Total
<b>Year ended, December 31, 2011</b>				
Opening net book amount	\$ 9,636	\$ 4,819	\$ 744	\$ 15,199
Acquisition of business	-	769	-	769
Amortization charge	(1,616)	(827)	(185)	(2,628)
<b>Closing net book amount</b>	<b>\$ 8,020</b>	<b>\$ 4,761</b>	<b>\$ 559</b>	<b>\$ 13,340</b>

<b>At December 31, 2011</b>				
Cost	\$ 19,200	\$ 8,366	\$ 923	\$ 28,489
Accumulated amortization	(11,180)	(3,605)	(364)	(15,149)
<b>Net book amount</b>	<b>\$ 8,020</b>	<b>\$ 4,761</b>	<b>\$ 559</b>	<b>\$ 13,340</b>

<b>Year ended, December 31, 2012</b>				
Opening net book amount	\$ 8,020	\$ 4,761	\$ 559	\$ 13,340
Amortization charge	(1,251)	(891)	(185)	(2,327)
<b>Closing net book amount</b>	<b>\$ 6,769</b>	<b>\$ 3,870</b>	<b>\$ 374</b>	<b>\$ 11,013</b>

<b>At December 31, 2012</b>				
Cost	\$ 19,200	\$ 8,366	\$ 923	\$ 28,489
Accumulated amortization	(12,431)	(4,496)	(549)	(17,476)
<b>Net book amount</b>	<b>\$ 6,769</b>	<b>\$ 3,870</b>	<b>\$ 374</b>	<b>\$ 11,013</b>

## 8 Goodwill

The Corporation performed its annual assessment for goodwill impairment as at December 31, 2012 in accordance with its policy described in Note 2(k). Goodwill has been allocated to the following CGUs:

	2012	2011
Edmonton	\$ 4,346	\$ 4,346
Calgary	5,382	5,382
Vancouver 1	2,630	2,630
Victoria	3,208	3,208
Québec	654	654
Vancouver 2	3,413	3,413
Montréal	823	823
<b>Total</b>	<b>\$ 20,456</b>	<b>\$ 20,456</b>

In assessing goodwill for impairment at December 31, 2012, the Corporation determined that: the assets and liabilities of the Corporation have not changed significantly from the prior year at December 31, 2011; the estimated recoverable amounts of the CGUs exceeded their carrying amounts by a significant amount; no events or circumstances have changed; and, the likelihood of an impairment in goodwill is remote. It was therefore appropriate to continue to rely on the quantitative analysis performed at December 31, 2011.

In performing that analysis, estimated recoverable amounts were 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, including actual historical performance. For periods beyond the budgeted period, cash flows were extrapolated using growth rates that did not exceed the long-term averages for the business. Key assumptions included a weighted average growth rate of 2% and a pre-tax discount rate of 17% for all CGUs.



# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

## Goodwill (continued)

The fair value of each CGU was significantly in excess of its carrying amount. Based on sensitivity analysis, no reasonably possible change in key assumptions would cause the carrying amount of any CGU to exceed its recoverable amount. The total recoverable amount for all CGU's exceeded their carrying amount by \$77,375.

## 9 Long-term debt

	Bankers Acceptances <sup>(1)</sup>	Prime Rate Loan <sup>(2)</sup>	Total Long Term Debt
At January 1, 2011	\$ 4,000	\$ 6,763	\$ 10,763
New debt advanced for acquisition	-	4,317	4,317
Repayment of debt	-	(8,985)	(8,985)
<b>Closing Balance at December 31, 2011</b>	<b>4,000</b>	<b>2,095</b>	<b>6,095</b>
Current portion of long-term debt	-	-	-
Non-current portion of long-term debt	\$ 4,000	\$ 2,095	\$ 6,095
At January 1, 2012	\$ 4,000	\$ 2,095	\$ 6,095
Repayment of debt	-	(277)	(277)
<b>Closing Balance at December 31, 2012</b>	<b>4,000</b>	<b>1,818</b>	<b>5,818</b>
Current portion of long-term debt	-	-	-
Non-current portion of long-term debt	\$ 4,000	\$ 1,818	\$ 5,818

<sup>(1)</sup> 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 December 31, 2012, the interest rate was 3.7%.

<sup>(2)</sup> 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 December 31, 2012, the interest rate was 4.0%.

The Corporation has a revolving credit facility of up to \$40,000 of which \$6,218 is drawn (including letters of credit totaling \$400 per Note 13(a)) as at December 31, 2012. The agreement is a committed facility maturing on July 31, 2014. 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

	2012	2011
Interest on long-term debt	\$ 94	\$ 274
Other charges, net	263	138
	\$ 357	\$ 412

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

## 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.

	2012	2011
Lease inducements received	\$ 699	\$ 699
Accumulated amortization, net	(187)	(133)
	512	566
Less current portion, included in accrued liabilities	(97)	(54)
	\$ 415	\$ 512

## 12 Income taxes

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

	2012	2011
Current tax:		
Current tax on profits for the year	\$ 3,981	\$ 1,862
Total current tax	3,981	1,862
Deferred tax:		
Origination and reversal of temporary differences	222	1,136
Impact of change in substantively enacted tax rate	(28)	(38)
Total deferred tax	\$ 194	\$ 1,098

The tax on the Corporation's earnings differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the consolidated entities as follows:

	2012	2011
Earnings before income taxes	\$ 15,324	\$ 10,888
Non-deductible expenses	951	293
Income subject to tax	16,275	11,181
Income tax at statutory rate of 25.3% (2011 - 26.9%)	4,118	3,003
Impact of substantively enacted rates and other	57	(43)
Income tax expense	\$ 4,175	\$ 2,960

The decrease in the statutory rate from 2011 to 2012 is due to a previously legislated decrease in the federal statutory corporate income tax rates.

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

## Income taxes (continued)

The analysis of the deferred tax assets and deferred tax liabilities is as follows:

	2012	2011
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	\$ (184)	\$ (358)
Deferred tax asset to be recovered within 12 months	(152)	(267)
	(336)	(625)
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	2,950	2,725
Deferred tax liability to be recovered within 12 months	2,176	2,496
	5,126	5,221
Deferred tax liabilities, net	\$ 4,790	\$ 4,596

The movement of deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdictions, is as follows:

	Accounts payable and accrued liabilities	Offering costs and other	Total
<b>Deferred tax assets</b>			
At January 1, 2011	\$ (535)	\$ (240)	\$ (775)
Charged to the statement of earnings	1	149	150
At December 31, 2011	\$ (534)	\$ (91)	\$ (625)
Charged to the statement of earnings	276	13	289
<b>At December 31, 2012</b>	<b>\$ (258)</b>	<b>\$ (78)</b>	<b>\$ (336)</b>

	Linen in service	Property, plant and equipment	Intangible assets and Goodwill	Total
<b>Deferred tax liabilities</b>				
At January 1, 2011	\$ 620	\$ 1,095	\$ 2,506	\$ 4,221
Charged (credited) to the statement of earnings	1,381	(12)	(421)	948
Acquisition of subsidiary	-	-	52	52
At December 31, 2011	\$ 2,001	\$ 1,083	\$ 2,137	\$ 5,221
Charged (credited) to the statement of earnings	159	59	(313)	(95)
<b>At December 31, 2012</b>	<b>\$ 2,160</b>	<b>\$ 1,142</b>	<b>\$ 1,824</b>	<b>\$ 5,126</b>

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

## 13 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:

2013	4,160
2014	4,234
2015	3,693
2016	3,323
Subsequent	15,691
	<b>\$ 31,101</b>

#### (ii) Linen purchase commitments

At December 31, 2012, the Corporation was committed to linen expenditure obligations in the amount of \$2,551 (2011 – \$1,672) to be incurred over the next twelve months.

#### (iii) Capital equipment commitments

At December 31, 2012, the Corporation was committed to capital expenditure obligations in the amount of \$20,332 (2011 – \$2,135) to be incurred over the next twelve months.

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

## 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

	2012	
	Shares (#)	Capital (\$)
<b>Common shares</b>		
Balance, beginning of year	7,006,365	\$ 71,400
Issued under LTI	48,842	1,178
Issued under LTI, unvested	(36,626)	(853)
	<b>7,018,581</b>	<b>\$ 71,725</b>
<b>Capital held in LTIP trust</b>		
Balance, beginning of year	-	\$ (1,907)
Change during the year	-	1,626
	-	\$ (281)
<b>Total Share Capital</b>	<b>7,018,581</b>	<b>\$ 71,444</b>

### c) Weighted average number of shares outstanding

	2012	2011
Balance, beginning of year	7,006,365	7,006,365
Weighted average unvested shares issued for LTI	(24,933)	(87,410)
Basic weighted average shares for the year	<b>6,981,432</b>	6,918,955
Basic weighted average shares for the year	<b>6,981,432</b>	6,918,955
Dilutive effect of LTI shares	12,129	61,534
Fully diluted weighted average shares for the year	<b>6,993,561</b>	6,980,489

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

## 15 Long-Term Incentive Plan

A trust was formed to hold equity grants issued under the terms of the LTI on behalf of the participants (the "LTIP Trust"). The Corporation is neither a trustee of the LTIP Trust nor a direct participant of the LTI; 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 special purpose 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 LTI participants. Unvested Common shares held by the LTIP Trust are shown as a reduction of shareholders' equity.

	2012		2011	
	Unvested	Vested	Unvested	Vested
Balance, beginning of year	74,511	168,466	114,074	115,780
Issued during year	36,626	12,216	11,566	1,557
Vested during year	(62,946)	62,946	(51,129)	51,129
Balance, end of year	48,191	243,628	74,511	168,466

The cost of the 48,191 (2011 - 74,511) unvested Common shares held in trust by the LTIP at December 31, 2012 was \$281 (2011 - \$1,252).

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

## 16 Dividends to Shareholders

During the year ended December 31, 2012, the Corporation declared total dividends to Shareholders of \$7,977 or \$1.13 per share (2011 - \$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 15<sup>th</sup> day of the following month.

## 17 Net change in non-cash working capital items

	2012	2011
Accounts receivable	\$ 705	\$ (1,002)
Linen in service	(706)	(309)
Prepaid expenses and deposits	379	(620)
Accounts payable and accrued liabilities	(1,357)	(345)
Income taxes payable	558	1,857
	\$ (421)	\$ (419)

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

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## 18 Financial Instruments

### a) Fair value

The Corporation's financial instruments at December 31, 2012 consist of accounts receivable, accounts payable and accrued liabilities, dividends payable 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.

### 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, 2012, one foreign exchange forward option contract was outstanding for the purchase of \$7,000 USD.

#### (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 \$58 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, 2012.

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.

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

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:

December 31, 2011	Gross	Allowance	Net
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, 2012	Gross	Allowance	Net
Current	\$ 10,486	\$ -	\$ 10,486
31-60 days	3,589	-	3,589
Greater than 60 days	152	30	122
	\$ 14,227	\$ 30	\$ 14,197

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:

	2012	2011
Balance, beginning of year	\$ 48	\$ 42
Adjustment made during the year	-	87
Write-offs	(18)	(81)
Balance, end of year	\$ 30	\$ 48

## 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 July 31, 2014 (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.



# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

## 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 (earnings before income taxes, depreciation and amortization) and Fixed Charge Coverage. EBITDA is an additional GAAP measure as prescribed by IFRS and 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:

	2012	2011
Long-term debt, including current portion	\$ 5,818	\$ 6,095
Issued and outstanding letters of credit	400	250
Funded debt	6,218	6,345
Net earnings for the trailing twelve months	11,149	7,928
Add:		
Income tax expense	4,175	2,960
Financial charges	357	412
Depreciation of property, plant and equipment	6,350	5,938
Amortization of intangible assets	2,327	2,628
Loss on disposal of property, plant and equipment	159	80
EBITDA	\$ 24,517	\$ 19,946
Funded debt to EBITDA	0.25x	0.32x

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

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

	2012	2011
EBITDA	\$ 24,517	\$ 19,946
Financial charges	357	412
Dividends to shareholders	7,977	7,706
	\$ 8,334	\$ 8,118
Fixed charge coverage	2.9x	2.5x

## 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 three employees acting in the capacity of General Manager.

During 2012 and 2011, remuneration to directors and key management personnel was as follows:

	2012	2011
Salaries and retainer fees	\$ 1,702	\$ 1,593
Short-term bonus incentives	750	585
Post-employment benefits	47	46
Share-based payments	943	1,497
	\$ 3,442	\$ 3,721

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. For the year ended December 31, 2012, the Corporation incurred such fees totaling \$138 (2011 - \$138).

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts, years ended December 31, 2012 and 2011)

## 21 Expense by nature

	2012	2011
Wages and benefits	\$ 61,831	\$ 58,194
Linen	12,706	12,031
Utilities	8,276	8,688
Delivery	5,583	4,900
Repairs and maintenance	3,832	3,843
Occupancy costs	4,012	3,915
Materials and supplies	5,346	5,103
Other expenses	187	239
	<b>\$ 101,773</b>	<b>\$ 96,913</b>

## 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 division (Note 5) were 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 year ended December 31, 2012, the Corporation has recorded revenue of \$59,531 (2011 – \$54,743) from these three major customers, representing 47% (2011 – 47%) of total revenue.

	2012		2011	
Healthcare	\$ 86,610	68.6%	\$ 80,145	68.6%
Hospitality	39,680	31.4%	36,714	31.4%
	<b>\$ 126,290</b>	<b>100.0%</b>	<b>\$ 116,859</b>	<b>100%</b>

## 23 Subsequent Events

The Corporation's Board of Directors declared an eligible dividend of \$0.0958 per Common share of the Corporation payable on each of February 15, March 15 and April 15 to Shareholders of record on January 31, February 28, and March 31, respectively.

## 24 Comparative Figures

Certain of the comparative figures have been adjusted to be consistent with the current period presentation.