

K-Bro Linen Income Fund

Interim Consolidated Financial Statements
June 30, 2009

K-Bro Linen Income Fund

Interim Consolidated Balance Sheets

	June 30, 2009 \$ (Unaudited)	December 31, 2008 \$ Restated (see note 3)
Assets		
Current assets		
Accounts receivable	9,440,017	8,669,939
Linen in service	7,329,150	7,755,839
Prepaid expenses and deposits	823,215	623,953
Future income taxes	598,372	426,032
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	18,190,754	17,475,763
Restricted escrow funds (note 4)	-	540,500
Property, plant and equipment	35,233,044	36,024,039
Intangible assets	14,994,648	16,073,218
Goodwill	16,220,250	15,679,750
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	84,638,696	85,793,270
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Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	9,274,915	12,884,895
Distribution payable to unitholders	642,146	642,146
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	9,917,061	13,527,041
Long-term debt	6,734,551	4,061,285
Unamortized lease inducements	492,028	520,144
Future income taxes	4,036,839	3,919,231
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	21,180,479	22,027,701
	<hr/>	<hr/>
Contingencies and commitments (note 6)		
Unitholders' Equity		
Exchangeable shares (note 7b)	724,110	724,110
Fund units (note 7b)	70,675,516	70,675,516
Fund units held in trust by LTIP	(834,137)	(457,079)
Contributed surplus (note 7c)	446,054	340,728
Deficit	(7,499,272)	(7,405,966)
Accumulated other comprehensive loss (note 7d)	(54,054)	(111,740)
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	63,458,217	63,765,569
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	84,638,696	85,793,270
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The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Fund

(Signed) "Ross Smith"

Trustee

(Signed) "Matthew Hills"

Trustee

K-Bro Linen Income Fund

Interim Consolidated Statements of Earnings and Deficit (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2009 \$	2008 \$ Restated (see note 3)	2009 \$	2008 \$ Restated (see note 3)
Revenue	21,745,884	21,839,945	43,239,345	41,503,345
Expenses				
Wages and benefits	9,664,406	10,121,327	19,421,923	20,093,141
Linen	2,560,334	2,627,643	5,117,836	5,060,598
Utilities	1,427,283	1,867,023	3,127,624	3,429,003
Materials and supplies	827,163	668,918	1,582,211	1,268,412
Repairs and maintenance	769,913	672,111	1,538,664	1,364,205
Delivery	768,342	956,974	1,577,544	1,832,541
Occupancy costs	719,740	914,125	1,448,996	1,533,861
Corporate	897,891	711,065	1,821,748	1,448,163
	17,635,072	18,539,186	35,636,546	36,029,924
Earnings before the undernoted	4,110,812	3,300,759	7,602,799	5,473,421
Other expenses				
Amortization of property, plant and equipment	(1,331,174)	(1,356,124)	(2,683,817)	(2,277,679)
Amortization of intangible assets	(539,285)	(539,285)	(1,078,570)	(1,071,408)
Financial charges	(64,119)	(140,152)	(154,564)	(397,208)
Loss on disposal of property, plant and equipment	-	(458,143)	(3,317)	(457,893)
Write-off of new plant start-up costs (note 3)	-	(26,909)	-	(132,631)
	(1,934,578)	(2,520,613)	(3,920,268)	(4,336,819)
Earnings before income taxes	2,176,234	780,146	3,682,531	1,136,602
Income tax (expense) recovery	(8,106)	231,414	77,038	590,605
Net earnings for the period	2,168,128	1,011,560	3,759,569	1,727,207
Deficit – beginning of period	(7,740,963)	(5,632,877)	(7,405,966)	(4,573,837)
Distributions to unitholders (note 8)	(1,926,437)	(1,926,438)	(3,852,875)	(3,701,125)
Deficit – end of period	(7,499,272)	(6,547,755)	(7,499,272)	(6,547,755)
	\$	\$	\$	\$
Net earnings per unit				
Basic	0.31	0.15	0.54	0.26
Diluted	0.31	0.14	0.54	0.26
	#	#	#	#
Weighted average number of units outstanding				
Basic	6,946,242	6,960,968	6,957,894	6,595,029
Diluted	7,010,423	6,985,309	7,022,075	6,619,370

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

K-Bro Linen Income Fund

Interim Consolidated Statements of Comprehensive Income (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2009 \$	2008 \$ Restated (see note 3)	2009 \$	2008 \$ Restated (see note 3)
Net earnings for the period	2,168,128	1,011,560	3,759,569	1,727,207
Other comprehensive income (loss)				
Gain (loss) on derivative instruments designated as cash flow hedges, net of future income taxes of (\$19,997) (six months ended June 30, 2009 – (\$22,306); three months ended June 30, 2008 – (\$18,262); six months ended June 30, 2008 – \$4,170)	<u>52,325</u>	<u>40,992</u>	<u>57,686</u>	<u>(9,360)</u>
Other comprehensive income (loss) for the period	<u>52,325</u>	<u>40,992</u>	<u>57,686</u>	<u>(9,360)</u>
Comprehensive income for the period	<u>2,220,453</u>	<u>1,052,552</u>	<u>3,817,255</u>	<u>1,717,847</u>

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

K-Bro Linen Income Fund

Interim Consolidated Statements of Cash Flows (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2009 \$	2008 \$ Restated (see note 3)	2009 \$	2008 \$ Restated (see note 3)
Cash provided by (used in)				
Operating activities				
Net earnings for the period	2,168,128	1,011,560	3,759,569	1,727,207
Items not affecting cash				
Amortization of property, plant and equipment	1,331,174	1,356,124	2,683,817	2,277,679
Amortization of intangible assets	539,285	539,285	1,078,570	1,071,408
Amortization of lease inducements	(14,058)	(14,058)	(28,116)	(14,058)
Loss on disposal of property, plant and equipment	-	458,143	3,317	457,893
Future income taxes	8,106	(231,414)	(77,038)	(590,605)
	4,032,635	3,119,640	7,420,119	4,929,524
Net change in non-cash working capital items (note 9)	(493,656)	(2,649,399)	(4,677,150)	(771,098)
Cash provided by operating activities	3,538,979	470,241	2,742,969	4,158,426
Financing activities				
(Decrease) increase in long-term debt – revolving line of credit	(475,935)	5,009,908	2,673,266	(7,617,199)
Distributions paid to unitholders	(1,926,437)	(1,926,438)	(3,852,875)	(3,562,822)
Fund units issued – net of offering costs	-	(159,603)	-	18,092,544
Cash provided by (used in) financing activities	(2,402,372)	2,923,867	(1,179,609)	6,912,523
Investing activities				
Purchase of property, plant and equipment	(1,136,607)	(4,110,167)	(1,569,860)	(7,384,366)
Proceeds from disposal of property, plant and equipment	-	155,911	6,500	156,161
Business acquisition	-	(83,297)	-	(3,302,244)
Escrow funds	-	-	-	(540,500)
Cash used in investing activities	(1,136,607)	(4,037,553)	(1,563,360)	(11,070,949)
Change in cash	-	(643,445)	-	-
Cash – beginning of period	-	643,445	-	-
Cash – end of period	-	-	-	-
Supplementary cash flow information				
Interest paid	87,417	98,968	158,634	341,375
Non-cash financing and investing activities				
Equipment purchases included in accounts payable and accrued liabilities	1,416,542	1,775,019	1,416,542	1,775,019
Distribution included in distribution payable	-	-	-	138,303

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

K-Bro Linen Income Fund

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2009

1 Business description

K-Bro Linen Income Fund (the “Fund”) is a limited purpose trust established under the laws of Alberta pursuant to the Amended and Restated Fund Declaration of Trust dated February 3, 2005. The Fund was created for the purpose of acquiring, directly or indirectly, all of the issued and outstanding securities of K-Bro Linen Systems Inc. K-Bro Linen Systems Inc. provides a range of services to healthcare institutions, hotels and other commercial accounts. These services include the processing, management and distribution of linen.

2 Basis of presentation

These accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”) for interim financial statements. The accounting principles and methods of computation adopted in these financial statements are the same as those of the audited consolidated financial statements for the fiscal year ended December 31, 2008 except as described in Note 3. However, these interim consolidated financial statements do not include all information and disclosures required under GAAP for annual financial statements. Accordingly, these unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2008.

3 Changes in accounting policies

Goodwill and intangible assets

In February 2008, the CICA issued a new accounting standard – Section 3064 “Goodwill and intangible assets” replacing accounting standards Section 3062 “Goodwill and other intangible assets” and Section 3450 “Research and development costs.” Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The new Section is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Fund adopted the new standard for its fiscal year beginning January 1, 2009. The provisions of Section 3064 were adopted retrospectively, with restatement of prior periods.

As a result of this adoption, the Fund has retroactively expensed certain expenditures related to the pre-operating period of the new Calgary plant, rather than recording them as assets in “Deferred charges.” The adoption of Section 3064 resulted in an increase to opening deficit of \$nil at January 1, 2008 and \$96,217 at January 1, 2009. For the three months ended June 30, 2008, the adoption of this standard resulted in an increase of \$26,909 in the “Write-off of new plant start-up costs” expense and an increase in the “Future income tax recovery” of \$7,510, and reduced diluted earnings per unit by \$0.01. For the six months ended June 30, 2008, the adoption of this standard resulted in an increase of \$132,631 in the “Write-off of new plant start-up costs” expense and an increase in the “Future income tax recovery” of \$36,414, and reduced both basic and diluted earnings per unit by \$0.02.

K-Bro Linen Income Fund

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2009

4 Business acquisition

On January 31, 2008, the Fund completed the acquisition of the laundry business, linen, property and equipment of Buanderie HMR Inc. located in Quebec City, Quebec. The business acquisition was accounted for using the purchase method, whereby the purchase consideration was allocated to the fair values of the net assets acquired at January 31, 2008. The allocation was based on management's best estimate of the fair value of net assets acquired.

Of the cash consideration payable to the vendor, \$540,000 was deposited into escrow with an escrow agent. The funds held in escrow were to be released to the vendor upon the determination that specified earnings before interest, income taxes and amortization were met in the twelve-month period subsequent to the acquisition and goodwill correspondingly increased by the amount released. As at March 30, 2009 it was determined that the \$540,000 was eligible for release and goodwill has been correspondingly increased.

5 Future income taxes

On June 12, 2007, Bill C-52 Budget Implementation Act 2007, which contains legislation to tax publicly traded trusts in Canada, was substantively enacted by the Canadian Federal Government. As a result, a new 31.5 per cent tax will be applied to distributions from Canadian public income trusts. The new tax is not expected to apply to the Fund until 2011 as a transition period applies to publicly traded trusts that existed prior to November 1, 2006. There was no additional future income tax expense or recovery that needed to be recorded by the Fund as a result of this legislation as future income taxes are already recorded by the Fund's wholly-owned subsidiary K-Bro Linen Systems Inc.

6 Contingencies and commitments

a) Contingencies

Letters of credit

The Fund has an outstanding letter of credit issued as part of normal business operations in the amount of \$250,000 (2008 – \$250,000) expiring January 24, 2010. A \$185,000 letter of credit outstanding at December 31, 2008 was cancelled in March 2009.

K-Bro Linen Income Fund

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2009

b) Commitments

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:

	\$
Remainder of 2009	2,453,932
2010	3,303,231
2011	2,084,295
2012	2,002,862
2013	1,782,979
Subsequent	3,973,831

Linen purchase commitments

At June 30, 2009, the Fund was committed to linen expenditure obligations in the amount of \$2,504,480 (December 31, 2008 – \$2,196,023).

K-Bro Linen Income Fund

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2009

7 Unitholders' equity

a) Authorized

The declaration of trust provides that an unlimited number of units and an unlimited number of Special Trust Units may be issued.

b) Issued and outstanding

Fund Units	#	\$
Balance at December 31, 2007	5,423,862	52,210,472
Issued on February 27, 2008 at \$12.85 per Unit	1,362,000	17,501,700
Offering costs – net of future tax recovery of \$341,000		(842,959)
Issued on March 28, 2008 at \$12.85 per Unit	146,700	1,885,095
Offering costs – net of future tax recovery of \$31,500		(78,792)
	<u>1,508,700</u>	<u>18,465,044</u>
Balance at June 30, 2009 and December 31, 2008	6,932,562	<u>70,675,516</u>
Exchangeable shares	#	\$
Balance at June 30, 2009 and December 31, 2008	<u>72,411</u>	<u>724,110</u>
Total Fund Units and Exchangeable shares issued	<u>7,004,973</u>	

The exchangeable shares were issued by the Fund's subsidiary to certain members of management and are exchangeable on a one-to-one basis for Fund Units. The risks and privileges of these shares are the same as for Fund Units. The exchangeable shares of the Fund's subsidiary are synonymous with the Special Trust Units of the Fund.

K-Bro Linen Income Fund

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2009

c) Contributed surplus

	Six months ended June 30, 2009	Year ended December 31, 2008
	\$	\$ (Audited)
Balance, beginning of period	340,728	413,671
Net stock based compensation recorded	524,408	319,628
Issuance of vested Units to participants	<u>(419,082)</u>	<u>(392,571)</u>
Balance, end of period	<u>446,054</u>	<u>340,728</u>

d) Accumulated other comprehensive loss

	Six months ended June 30, 2009	Year ended December 31, 2008
	\$	\$ (Audited)
Balance, beginning of period	(111,740)	1,899
Other comprehensive income (loss) during the period	<u>57,686</u>	<u>(113,639)</u>
Balance, end of period	<u>(54,054)</u>	<u>(111,740)</u>

8 Distributions to unitholders

The Fund's policy is to make distributions to unitholders 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 Trustees of the Fund. All such distributions are discretionary. Distributions are declared payable each month to the Fund unitholders and exchangeable shareholders on the last business day of each month and are paid by the 15th day of the following month.

Distributions declared during the six months ended June 30, 2009 were at the rate of \$0.09167 per unit per month (\$1.10 per unit annualized) for a total declared distribution of \$3,852,875 (six months ended June 30, 2008 - \$3,701,125).

K-Bro Linen Income Fund

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2009

9 Net change in non-cash working capital items

	Three months ended June 30,	
	2009	2008
	\$	\$
		Restated (see note 3)
Cash provided (used) by changes in		
Accounts receivable	1,000,697	(782,028)
Linen in service	302,884	460,434
Prepaid expenses and deposits	461,149	(139,391)
Accounts payable and accrued liabilities	<u>(2,258,386)</u>	<u>(2,188,414)</u>
	<u>(493,656)</u>	<u>(2,649,399)</u>

	Six months ended June 30,	
	2009	2008
	\$	\$
		Restated (see note 3)
Cash provided (used) by changes in		
Accounts receivable	(770,078)	(626,911)
Linen in service	426,689	573,814
Prepaid expenses and deposits	(157,236)	(32,443)
Accounts payable and accrued liabilities	<u>(4,176,525)</u>	<u>(685,558)</u>
	<u>(4,677,150)</u>	<u>(771,098)</u>

10 Segmented information

The Fund provides laundry and linen services to the healthcare and hospitality sectors through six operating segments in Vancouver, Victoria, Calgary, Edmonton, Toronto and Quebec City. The services offered and the economic characteristics associated with these segments are similar, therefore these segments have been aggregated into one reportable segment which operates exclusively in Canada. The results of the Quebec City operation acquired (see note 4) are reported commencing February 1, 2008.

K-Bro Linen Income Fund

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2009

Total revenue derived from the healthcare and hospitality sectors are as follows:

	Three months ended June 30,	
	2009	2008
Healthcare	16,723,346	16,448,067
Hospitality	5,022,538	5,391,878
Total	<u>21,745,884</u>	<u>21,839,945</u>
	Six months ended June 30,	
	2009	2008
Healthcare	33,660,660	31,690,265
Hospitality	9,578,685	9,813,080
Total	<u>43,239,345</u>	<u>41,503,345</u>

In Edmonton, the Fund is the significant supplier of laundry and linen services to the entity which manages all major healthcare facilities in the region. This contract expires on December 31, 2010. In Calgary, the major customer is contractually committed to February 28, 2018 and in Vancouver the major customer is contractually committed to January 15, 2013.

For the six months ended June 30, 2009, the Fund has recorded revenue of \$26.1 million (six months ended June 30, 2008 – \$24.1 million) from these three major customers, representing 60% (2008 – 58%) of total revenue.

11 Related party transaction

The Fund has incurred expenses in the normal course of business for advisory consulting services provided by a Trustee 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, 2009, the Fund incurred such fees totalling \$34,500 (three months ended June 30, 2008 – \$nil). For the six months ended June 30, 2009, the Fund incurred such fees totalling \$69,000 (six months ended June 30, 2008 – \$28,000).

12 Comparative figures

Certain of the comparative figures have been reclassified to conform to the presentation for the current period.