



**K·BRO**

**Q3, 2015**  
Condensed  
Consolidated  
Financial  
Statements



**Dependable.**

# Interim Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 3,038	\$ 13,744
Accounts receivable	15,512	14,560
Prepaid expenses and deposits	1,653	1,009
Linen in service	10,373	9,794
	30,576	39,107
<b>Property, plant and equipment (note 3)</b>	88,637	66,319
<b>Intangible assets</b>	5,437	6,756
<b>Goodwill</b>	20,456	20,456
	\$ 145,106	\$ 132,638
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	24,111	\$ 16,346
Income taxes payable	204	243
Dividends payable to shareholders	799	796
	25,114	17,385
<b>Unamortized lease inducements</b>	735	850
<b>Deferred income taxes</b>	6,041	4,965
	\$ 31,890	\$ 23,200
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b>	107,272	106,870
<b>Contributed surplus</b>	2,282	1,642
<b>Retained earnings</b>	3,662	926
	\$ 113,216	\$ 109,438
<b>Contingencies and commitments (note 5)</b>	\$ 145,106	\$ 132,638

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

# Interim 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,	
	2015	2014	2015	2014
<b>Revenue</b>	\$ 37,700	\$ 36,028	\$ 106,857	\$ 102,647
<b>Expenses</b>				
Wages and benefits	16,961	16,160	47,880	46,008
Linen	3,724	3,760	11,074	10,940
Utilities	2,270	2,173	6,416	6,732
Delivery	1,743	1,590	4,755	4,697
Occupancy costs	1,287	1,117	3,761	3,539
Materials and supplies	1,248	1,219	3,602	3,434
Repairs and maintenance	1,145	961	3,397	3,040
Corporate	1,745	1,431	5,005	4,349
	30,123	28,411	85,890	82,739
<b>EBITDA</b>	7,577	7,617	20,967	19,908
<b>Other expenses</b>				
Depreciation of property, plant and equipment (note 3)	1,819	1,742	5,220	5,092
Amortization of intangible assets	507	531	1,503	1,591
Finance expense (recovery)	(128)	125	(49)	490
Loss on disposal of property, plant and equipment	4	37	18	77
	2,202	2,435	6,692	7,250
<b>Earnings before income taxes</b>	5,375	5,182	14,275	12,658
Current income tax expense	1,070	1,530	3,289	3,105
Deferred income tax expense (recovery)	453	(99)	1,076	438
<b>Income tax expense</b>	1,523	1,431	4,365	3,543
<b>Net earnings and Comprehensive income</b>	3,852	3,751	9,910	9,115
<b>Net earnings per share:</b>				
Basic	\$ 0.49	\$ 0.53	\$ 1.25	\$1.30
Diluted	\$ 0.48	\$ 0.53	\$ 1.25	\$1.29
<b>Weighted average number of shares outstanding:</b>				
Basic	7,922,047	7,041,704	7,917,349	7,035,718
Diluted	7,973,771	7,095,889	7,958,074	7,089,544

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

# Interim Condensed Consolidated Statements of Changes in Equity

(unaudited, thousands of Canadian dollars)

	Total Share Capital	Contributed surplus	Retained earnings	Total equity
<b>As at January 1, 2015</b>	\$ 106,870	1,642	926	\$ 109,438
Net earnings	-	-	9,910	9,910
Dividends declared (note 6)	-	-	(7,174)	(7,174)
Employee share based compensation expense	-	1,042	-	1,042
Shares vested during the period	402	(402)	-	-
<b>As at September 30, 2015</b>	\$ 107,272	2,282	3,662	\$ 113,216

	Total Share Capital	Contributed surplus	Retained earnings (deficit)	Total equity
<b>As at January 1, 2014</b>	\$ 72,158	1,732	(2,774)	\$ 71,116
Net earnings	-	-	9,115	9,115
Dividends declared (note 6)	-	-	(6,278)	(6,278)
Employee share based compensation expense	-	830	-	830
Cash settled employee share based compensation	-	(37)	-	(37)
Shares vested during the period	389	(389)	-	-
<b>As at September 30, 2014</b>	\$ 72,547	2,136	63	\$ 74,746

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

# Interim Condensed Consolidated Statements of Cash Flow

(unaudited, thousands of Canadian dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>OPERATING ACTIVITIES</b>				
<b>Net earnings</b>	\$ 3,852	\$ 3,751	\$ 9,910	\$ 9,115
Depreciation of property, plant and equipment (note 3)	1,819	1,742	5,220	5,092
Amortization of intangible assets	507	531	1,503	1,591
Lease inducements, net of amortization	(38)	(38)	(115)	(59)
Cash settled employee share based compensation	-	-	-	(37)
Employee share based compensation expense	329	319	1,042	830
Loss on disposal of property, plant and equipment	4	37	18	77
Deferred income taxes	453	(99)	1,076	438
	6,926	6,243	18,654	17,047
Change in non-cash working capital items (note 7)	(1,193)	1,544	(4,934)	(2,539)
Cash provided by operating activities	5,733	7,787	13,720	14,508
<b>FINANCING ACTIVITIES</b>				
Net proceeds (repayments) of revolving credit facility	-	(679)	-	2,268
Dividends paid to shareholders (note 6)	(2,395)	(2,136)	(7,171)	(6,244)
Cash used by financing activities	(2,395)	(2,815)	(7,171)	(3,976)
<b>INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment (note 3)	(3,065)	(4,984)	(17,086)	(10,562)
Proceeds from disposal of property, plant and equipment	-	11	15	33
Purchase of intangible assets	-	-	(184)	(4)
Cash used in investing activities	(3,065)	(4,973)	(17,255)	(10,533)
Change in cash and cash equivalents during the period	273	-	(10,706)	-
Cash and cash equivalents, beginning of period	2,765	-	13,744	-
Cash and cash equivalents, end of period	\$ 3,038	\$ -	\$ 3,038	\$ -
<b>Supplementary cash flow information</b>				
Interest paid	\$ -	\$ 159	\$ -	\$ 440
Income taxes paid	\$ 1,519	\$ 1,139	\$ 3,328	\$ 3,236

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

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and nine months ended September 30, 2015 and 2014)

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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 nine processing facilities and one distribution centre in nine 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 14903 – 137 Avenue, Edmonton, Alberta, Canada.

These unaudited interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors ("the Board") on November 10, 2015.

## 1 Basis of Presentation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and Canadian Generally Accepted Accounting Principles ("GAAP"), as applicable to interim financial reports including IAS 34, *Interim Financial Reporting*, and should be read in conjunction with the annual consolidated audited financial statements for the year ended December 31, 2014 which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board, and GAAP as issued by CPA Canada. The accounting policies followed in these unaudited interim condensed consolidated financial statements are consistent with those of the previous year, except as described below.

## 2 Significant accounting policies adopted January 1, 2015

The Corporation has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2015. These changes were made in accordance with the applicable transitional provisions.

- IFRS 8, *Operating Segments*, requires the Corporation to disclose judgements made by management in aggregating segments, and a reconciliation of segment assets to the entity's assets when segment assets are reported. The adoption of the amendment to IFRS 8 did not result in any change to the method of recognizing segments for the Corporation.

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and nine months ended September 30, 2015 and 2014)

## 3 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, 2014</b>									
Opening net book amount	\$ 125	\$ 1,074	\$ 40,341	\$ 268	\$ 491	\$ 380	\$ 14,483	\$ 810	\$ 57,972
Additions	2,300	5,692	6,698	77	69	178	502	6	15,522
Disposals	-	-	(295)	-	(63)	-	-	-	(358)
Transfers	-	-	58	-	-	-	-	(58)	-
Depreciation charge	-	(90)	(4,750)	(71)	(80)	(234)	(1,592)	-	(6,817)
<b>Closing net book amount</b>	<b>\$ 2,425</b>	<b>\$ 6,676</b>	<b>\$ 42,052</b>	<b>\$ 274</b>	<b>\$ 417</b>	<b>\$ 324</b>	<b>\$ 13,393</b>	<b>\$ 758</b>	<b>\$ 66,319</b>
<b>At December 31, 2014</b>									
Cost	\$ 2,425	\$ 7,092	\$ 77,818	\$ 848	\$ 934	\$ 2,203	\$ 23,215	\$ 758	\$ 115,293
Accumulated depreciation	-	(416)	(35,766)	(574)	(517)	(1,879)	(9,822)	-	(48,974)
<b>Net book amount</b>	<b>\$ 2,425</b>	<b>\$ 6,676</b>	<b>\$ 42,052</b>	<b>\$ 274</b>	<b>\$ 417</b>	<b>\$ 324</b>	<b>\$ 13,393</b>	<b>\$ 758</b>	<b>\$ 66,319</b>
<b>Period ended, September 30, 2015</b>									
Opening net book amount	\$ 2,425	\$ 6,676	\$ 42,052	\$ 274	\$ 417	\$ 324	\$ 13,393	\$ 758	\$ 66,319
Additions	-	11,346	15,730	62	16	344	61	12	27,571
Disposals	-	-	(15)	-	(18)	-	-	-	(33)
Transfers	-	-	348	-	-	-	-	(348)	-
Depreciation charge	-	(100)	(3,562)	(67)	(69)	(203)	(1,219)	-	(5,220)
<b>Closing net book amount</b>	<b>\$ 2,425</b>	<b>\$ 17,922</b>	<b>\$ 54,553</b>	<b>\$ 269</b>	<b>\$ 346</b>	<b>\$ 465</b>	<b>\$ 12,235</b>	<b>\$ 422</b>	<b>\$ 88,637</b>
<b>At September 30, 2015</b>									
Cost	\$ 2,425	\$ 18,443	\$ 88,047	\$ 543	\$ 775	\$ 911	\$ 19,811	\$ 422	\$ 131,377
Accumulated depreciation	-	(521)	(33,494)	(274)	(429)	(446)	(7,576)	-	(42,740)
<b>Net book amount</b>	<b>\$ 2,425</b>	<b>\$ 17,922</b>	<b>\$ 54,553</b>	<b>\$ 269</b>	<b>\$ 346</b>	<b>\$ 465</b>	<b>\$ 12,235</b>	<b>\$ 422</b>	<b>\$ 88,637</b>

<sup>(1)</sup> Included in laundry equipment are assets under development in the amount of \$71. These assets are not available for service and accordingly are not presently being depreciated.

<sup>(2)</sup> The company retired fully depreciated assets with a cost of \$11,233 during the period.

## 4 Revolving credit facility

The Corporation has a revolving credit facility of up to \$50,000 of which \$1,650 is utilized (consisting of letters of credit totaling \$1,650) as at September 30, 2015. The agreement is a committed facility maturing on July 31, 2018. Interest payments only are due during the term of the facility.

## 5 Contingencies and commitments

### a) Contingencies – Letters of credit

The Corporation has standby letters of credit issued as part of normal business operations in the amount of \$1,650 (December 31, 2014 – \$1,650) which will remain outstanding for an indefinite period of time.

### b) Commitments

#### (i) Operating leases and utility commitments

Minimum lease payments for operating leases on buildings and equipment and estimated natural gas and electricity commitments for the next five calendar years and thereafter are as follows:

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and nine months ended September 30, 2015 and 2014)

Remainder of 2015	\$	1,587
2016		5,659
2017		4,972
2018		3,574
2019		2,097
Subsequent		12,097
	\$	29,986

## (ii) Linen purchase commitments

At September 30, 2015, the Corporation was committed to linen expenditure obligations in the amount of \$1,922 (December 31, 2014 – \$4,322) to be incurred within the next year.

## (iii) Property, plant and equipment commitments

At September 30, 2015, the Corporation was committed to capital expenditure obligations in the amount of \$874 (December 31, 2014 – \$21,741) to be incurred within the next year.

## 6 Dividends to shareholders

During the three months ended September 30, 2015, the Corporation declared total dividends to shareholders of \$2,395 or \$0.300 per share (September 30, 2014 - \$2,137 or \$0.300 per share). During the nine months ended September 30, 2015, the Corporation declared total dividends to shareholders of \$7,174 or \$0.900 per share (2014 - \$6,278 or \$0.883 per share)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Accounts receivable	\$ 2,049	\$ 2,042	\$ (952)	\$ (419)
Linen in service	44	627	(579)	(982)
Prepaid expenses and deposits	(190)	(394)	(644)	(438)
Accounts payable and accrued liabilities	(2,647)	(1,121)	(2,720)	(568)
Income taxes payable	(449)	390	(39)	(132)
	\$ (1,193)	\$ 1,544	\$ (4,934)	\$ (2,539)

## 8 Fair value of financial instruments

The Corporation's financial instruments at September 30, 2015 consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and dividends payable to shareholders. 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.



# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and nine months ended September 30, 2015 and 2014)

## 9 Related party transactions

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by a Director. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms. For the three months ended September 30, 2015, the Corporation incurred such fees totaling \$35 (2014 – \$35). For the nine months ended September 30, 2015, the Corporation incurred such fees totaling \$104 (2014 – \$104).

## 10 Segmented information

The Corporation provides laundry and linen services to the healthcare and hospitality sectors through nine operating divisions located in Vancouver, Victoria, Calgary, Edmonton, Saskatchewan, Toronto, Montréal, and Québec City. Management has assessed that the services offered and the economic characteristics associated with these divisions are similar, and therefore they have been aggregated into one reportable segment which operates exclusively in Canada.

The aggregation assessment requires significant judgment by management. Economic indicators used by management to assess the economic characteristics are the gross margin and the growth rate of each division.

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 and this contract expires on 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, 2015, the Corporation has recorded revenue of \$46,628 (2014 – \$45,793) from these three major customers, representing 43.6% (2014 – 44.6%) of total revenue.

	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014	
Healthcare	\$ 23,978	63.6%	\$ 23,068	64.0%
Hospitality	13,722	36.4%	12,960	36.0%
	<b>\$ 37,700</b>	<b>100.0%</b>	<b>\$ 36,028</b>	<b>100%</b>

  

	Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
Healthcare	\$ 71,840	67.2%	\$ 69,039	67.3%
Hospitality	35,017	32.8%	33,608	32.7%
	<b>\$ 106,857</b>	<b>100.0%</b>	<b>\$ 102,647</b>	<b>100%</b>

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and nine months ended September 30, 2015 and 2014)

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## 11 Subsequent events

On October 15, 2015, the Board declared an eligible dividend of \$0.1000 per common share of the Corporation payable on November 13, 2015 to shareholders of record October 31, 2015.

On November 10, 2015, the Board declared an eligible dividend of \$0.1000 per common share of the Corporation payable on December 15, 2015 to shareholders of record November 30, 2015.