K·BRO

Q2, 2015
Condensed Consolidated Financial Statements

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Interim Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,765	$ 13,744
Accounts receivable	17,561	14,560
Prepaid expenses and deposits	1,463	1,009
Linen in service	10,417	9,794
	32,206	39,107
Property, plant and equipment (note 3)	76,910	66,319
Intangible assets	5,944	6,756
Goodwill	20,456	20,456
	$ 135,516	$ 132,638
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	16,273	$ 16,346
Income taxes payable	653	243
Dividends payable to shareholders	799	796
	17,725	17,385
Unamortized lease inducements	773	850
Deferred income taxes	5,588	4,965
	$ 24,086	$ 23,200
SHAREHOLDERS' EQUITY		
Share capital	107,272	106,870
Contributed surplus	1,953	1,642
Retained earnings	2,205	926
	$ 111,430	$ 109,438
Contingencies and commitments (note 5)		
	$ 135,516	$ 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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue	$ 35,337	$ 34,348	$ 69,157	$ 66,619
Expenses				
Wages and benefits	15,845	15,281	30,919	29,848
Linen	3,702	3,613	7,350	7,179
Utilities	2,021	2,068	4,146	4,559
Delivery	1,497	1,538	3,012	3,107
Occupancy costs	1,240	1,221	2,474	2,422
Materials and supplies	1,151	1,060	2,354	2,216
Repairs and maintenance	1,154	1,055	2,252	2,079
Corporate	1,641	1,508	3,260	2,918
	28,251	27,344	55,767	54,328
EBITDA	7,086	7,004	13,390	12,291
Other expenses				
Depreciation of property, plant and equipment (note 3)	1,713	1,686	3,401	3,350
Amortization of intangible assets	506	530	996	1,060
Finance expense	177	196	79	365
Loss on disposal of property, plant and equipment	14	12	14	40
	2,410	2,424	4,490	4,815
Earnings before income taxes	4,676	4,580	8,900	7,476
Current income tax expense	1,130	1,195	2,219	1,576
Deferred income tax expense	507	52	623	536
Income tax expense	1,637	1,247	2,842	2,112
Net earnings and Comprehensive income	3,039	3,333	6,058	5,364
Net earnings per share:				
Basic	$ 0.38	$ 0.47	$ 0.77	$0.76
Diluted	$ 0.38	$ 0.47	$ 0.76	$0.76
Weighted average number of shares outstanding:				
Basic	7,915,549	7,033,601	7,914,961	7,032,675
Diluted	7,965,553	7,083,348	7,964,601	7,082,330

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
As at January 1, 2015	$ 106,870	1,642	926	$ 109,438
Net earnings	-	-	6,058	6,058
Dividends declared (note 6)	-	-	(4,779)	(4,779)
Employee share based compensation expense	-	713	-	713
Shares vested during the period	402	(402)	-	-
As at June 30, 2015	$ 107,272	1,953	2,205	$ 111,430

	Total Share Capital	Contributed surplus	Retained earnings (deficit)	Total equity
As at January 1, 2014	$ 72,158	1,732	(2,774)	$ 71,116
Net earnings	-	-	5,364	5,364
Dividends declared (note 6)	-	-	(4,141)	(4,141)
Employee share based compensation expense	-	511	-	511
Cash settled employee share based compensation	-	(37)	-	(37)
Shares vested during the period	389	(389)	-	-
As at June 30, 2014	$ 72,547	1,817	(1,551)	$ 72,813

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 June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
OPERATING ACTIVITIES				
Net earnings	$ 3,039	$ 3,333	$ 6,058	$ 5,364
Depreciation of property, plant and equipment (note 3)	1,713	1,686	3,401	3,350
Amortization of intangible assets	506	530	996	1,060
Lease inducements, net of amortization	(38)	(15)	(77)	(21)
Cash settled employee share based compensation	-	(37)	-	(37)
Employee share based compensation expense	334	139	713	511
Loss on disposal of property, plant and equipment	14	12	14	40
Deferred income taxes	507	52	623	536
	6,075	5,700	11,728	10,803
Change in non-cash working capital items (note 7)	(2,302)	(2,995)	(3,741)	(4,082)
Cash provided by operating activities	3,773	2,705	7,987	6,721
FINANCING ACTIVITIES				
Net proceeds of revolving credit facility	-	3,978	-	2,947
Dividends paid to shareholders (note 6)	(2,388)	(2,069)	(4,776)	(4,108)
Cash (used in) provided by financing activities	(2,388)	1,909	(4,776)	(1,161)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment (note 3)	(10,213)	(4,626)	(14,021)	(5,578)
Proceeds from disposal of property, plant and equipment	15	12	15	22
Purchase of intangible assets	(184)	-	(184)	(4)
Cash used in investing activities	(10,382)	(4,614)	(14,190)	(5,560)
Change in cash and cash equivalents during the period	(8,997)	-	(10,979)	-
Cash and cash equivalents, beginning of period	11,762	-	13,744	-
Cash and cash equivalents, end of period	$ 2,765	$ -	$ 2,765	$ -
Supplementary cash flow information				
Interest paid	$ -	$ 152	$ -	$ 281
Income taxes paid	$ 901	$ 1,054	$ 1,809	$ 2,097

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 six months ended June 30, 2015 and 2014)

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 and one distribution centre in eight 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 August 12, 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.

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

3 Property, plant and equipment

	Land	Buildings (1)	Laundry Equipment(2)	Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements	Spare Parts	Total
Year ended, December 31, 2014									
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)
Closing net book amount	$ 2,425	$ 6,676	$ 42,052	$ 274	$ 417	$ 324	$ 13,393	$ 758	$ 66,319
At December 31, 2014									
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)
Net book amount	$ 2,425	$ 6,676	$ 42,052	$ 274	$ 417	$ 324	$ 13,393	$ 758	$ 66,319
Period ended, June 30, 2015									
Opening net book amount	$ 2,425	$ 6,676	$ 42,052	$ 274	$ 417	$ 324	$ 13,393	$ 758	$ 66,319
Additions	-	6,517	7,406	11	3	43	39	2	14,021
Disposals	-	-	(11)	-	(18)	-	-	-	(29)
Transfers	-	-	348	-	-	-	-	(348)	-
Depreciation charge	-	(46)	(2,326)	(44)	(46)	(131)	(808)	-	(3,401)
Closing net book amount	$ 2,425	$ 13,147	$ 47,469	$ 241	$ 356	$ 236	$ 12,624	$ 412	$ 76,910
At June 30, 2015									
Cost	$ 2,425	$ 13,610	$ 79,862	$ 486	$ 763	$ 605	$ 19,788	$ 412	$ 117,951
Accumulated depreciation	-	(463)	(32,393)	(245)	(407)	(369)	(7,164)	-	(41,041)
Net book amount	$ 2,425	$ 13,147	$ 47,469	$ 241	$ 356	$ 236	$ 12,624	$ 412	$ 76,910

(1) Included in buildings are assets under development in the amount of $12,124. These assets are not available for service and accordingly are not presently being depreciated.
(2) Included in laundry equipment are assets under development in the amount of $8,348. These assets are not available for service and accordingly are not presently being depreciated.
(3) 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 $40,000 of which $1,650 is utilized (consisting of letters of credit totaling $1,650) as at June 30 2015. The agreement is a committed facility maturing on July 31, 2016. 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:

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

Remainder of 2015	$	3,140
2016		5,605
2017		4,951
2018		3,555
2019		2,071
Subsequent		12,059
	$	31,381

(ii) Linen purchase commitments

At June 30, 2015, the Corporation was committed to linen expenditure obligations in the amount of $3,588 (December 31, 2014 – $4,322) to be incurred within the next year.

(iii) Property, plant and equipment commitments

At June 30, 2015, the Corporation was committed to capital expenditure obligations in the amount of $12,402 (December 31, 2014 – $21,741) to be incurred within the next year.

6 Dividends to shareholders

During the three months ended June 30, 2015, the Corporation declared total dividends to shareholders of $2,391 or $0.300 per share (June 30, 2014 - $2,102 or $0.296 per share). During the six months ended June 30, 2015, the Corporation declared total dividends to shareholders of $4,779 or $0.600 per share (2014 - $4,141 or $0.583 per share)

7 Net change in non-cash working capital items

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
Accounts receivable	$	(2,474)	$	(2,671)	$	(3,001)	$	(2,461)
Linen in service		(339)		36		(623)		(1,609)
Prepaid expenses and deposits		(322)		720		(454)		(44)
Accounts payable and accrued liabilities		604		(1,221)		(73)		553
Income taxes payable		229		141		410		(521)
	$	(2,302)	$	(2,995)	$	(3,741)	$	(4,082)

8 Fair value of financial instruments

The Corporation's financial instruments at June 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.

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and six months ended June 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 June 30, 2015, the Corporation incurred such fees totaling $35 (2014 – $35). For the six months ended June 30, 2015, the Corporation incurred such fees totaling $69 (2014 – $69).

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 six months ended June 30, 2015, the Corporation has recorded revenue of $31,272 (2014 – $30,638) from these three major customers, representing 45.2% (2014 – 46.0%) of total revenue.

	Three Months Ended June 30, 2015			Three Months Ended June 30, 2014		
Healthcare	$	24,005	67.9%	$	23,330	67.9%
Hospitality		11,332	32.1%		11,018	32.1%
	$	35,337	100.0%	$	34,348	100%

	Six Months Ended June 30, 2015			Six Months Ended June 30, 2014		
Healthcare	$	47,862	69.2%	$	45,971	69.0%
Hospitality		21,295	30.8%		20,648	31.0%
	$	69,157	100.0%	$	66,619	100%

11 Subsequent events

On July 15, 2015, the Board declared an eligible dividend of $0.1000 per common share of the Corporation payable on August 14, 2015 to shareholders of record July 31, 2015.

On July 31, 2015, the Corporation renewed the credit facility on substantially the same terms through July 31, 2018. As a part of this renewal, the credit facility was increased to $50,000.

On August 12, 2015, the Board declared an eligible dividend of $0.1000 per common share of the Corporation payable on September 15, 2015 to shareholders of record August 31, 2015.