



K·BRO

Q1, 2015
Condensed
Consolidated
Financial
Statements



Dependable.

Interim Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 11,762	\$ 13,744
Accounts receivable	15,087	14,560
Prepaid expenses and deposits	1,141	1,009
Linen in service	10,078	9,794
	38,068	39,107
Property, plant and equipment (note 3)	68,439	66,319
Intangible assets	6,266	6,756
Goodwill	20,456	20,456
	\$ 133,229	\$ 132,638
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	15,669	\$ 16,346
Income taxes payable	424	243
Dividends payable to shareholders	796	796
	16,889	17,385
Unamortized lease inducements	811	850
Deferred income taxes	5,081	4,965
	\$ 22,781	\$ 23,200
SHAREHOLDERS' EQUITY		
Share capital	106,870	106,870
Contributed surplus	2,021	1,642
Retained earnings	1,557	926
	\$ 110,448	\$ 109,438
Contingencies and commitments (note 5)	\$ 133,229	\$ 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 March 31,	
	2015	2014
Revenue	\$ 33,820	\$ 32,271
Expenses		
Wages and benefits	15,074	14,567
Linen	3,648	3,566
Utilities	2,125	2,491
Delivery	1,515	1,569
Occupancy costs	1,234	1,201
Materials and supplies	1,203	1,156
Repairs and maintenance	1,098	1,024
Corporate	1,619	1,410
	27,516	26,984
EBITDA	6,304	5,287
Other expenses		
Depreciation of property, plant and equipment (note 3)	1,688	1,664
Amortization of intangible assets	490	530
Financial expense (income)	(98)	169
Loss on disposal of property, plant and equipment	-	28
	2,080	2,391
Earnings before income taxes	4,224	2,896
Current income tax expense	1,089	381
Deferred income tax expense	116	484
Income tax expense	1,205	865
Net earnings and Comprehensive income	3,019	2,031
Net earnings per share:		
Basic	\$ 0.38	\$0.29
Diluted	\$ 0.38	\$0.29
Weighted average number of shares outstanding:		
Basic	7,914,367	7,031,739
Diluted	7,942,293	7,072,163

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	-	-	3,019	3,019
Dividends declared (note 6)	-	-	(2,388)	(2,388)
Employee share based compensation expense	-	379	-	379
As at March 31, 2015	\$ 106,870	2,021	1,557	\$ 110,448

	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	-	-	2,031	2,031
Dividends declared (note 6)	-	-	(2,039)	(2,039)
Employee share based compensation expense	-	372	-	372
As at March 31, 2014	\$ 72,158	2,104	(2,782)	\$ 71,480

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 March 31,	
	2015	2014
OPERATING ACTIVITIES		
Net earnings	\$ 3,019	\$ 2,031
Depreciation of property, plant and equipment (note 3)	1,688	1,664
Amortization of intangible assets	490	530
Lease inducements, net of amortization	(39)	(6)
Employee share based compensation expense	379	372
Loss on disposal of property, plant and equipment	-	28
Deferred income taxes	116	484
	5,653	5,103
Change in non-cash working capital items (note 7)	(1,439)	(1,087)
Cash provided by operating activities	4,214	4,016
FINANCING ACTIVITIES		
Net repayments of revolving credit facility	-	(1,031)
Dividends paid to shareholders (note 5)	(2,388)	(2,039)
Cash provided by financing activities	(2,388)	(3,070)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (note 3)	(3,808)	(952)
Proceeds from disposal of property, plant and equipment	-	10
Purchase of intangible assets	-	(4)
Cash used in investing activities	(3,808)	(946)
Change in cash and cash equivalents during the period	(1,982)	-
Cash and cash equivalents, beginning of year	13,744	-
Cash and cash equivalents, end of period	\$ 11,762	\$ -
Supplementary cash flow information		
Interest paid	\$ -	\$ 129
Income taxes paid	\$ 908	\$ 1,043

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 months ended March 31, 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 May 6, 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 months ended March 31, 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, March 31, 2015									
Opening net book amount	\$ 2,425	\$ 6,676	\$ 42,052	\$ 274	\$ 417	\$ 324	\$ 13,393	\$ 758	\$ 66,319
Additions	-	3,155	582	2	-	35	28	6	3,808
Disposals	-	-	-	-	-	-	-	-	-
Transfers	-	-	394	-	-	-	-	(394)	-
Depreciation charge	-	(23)	(1,155)	(21)	(23)	(64)	(402)	-	(1,688)
Closing net book amount	\$ 2,425	\$ 9,808	\$ 41,873	\$ 255	\$ 394	\$ 295	\$ 13,019	\$ 370	\$ 68,439
At March 31, 2015									
Cost	\$ 2,425	\$ 10,248	\$ 73,131	\$ 477	\$ 843	\$ 597	\$ 19,777	\$ 370	\$ 107,868
Accumulated depreciation	-	(440)	(31,258)	(222)	(449)	(302)	(6,758)	-	(39,429)
Net book amount	\$ 2,425	\$ 9,808	\$ 41,873	\$ 255	\$ 394	\$ 295	\$ 13,019	\$ 370	\$ 68,439

⁽¹⁾ Included in buildings are assets under development in the amount of \$8,817. 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 \$3,407. 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 quarter.

4 Revolving credit facility

The Corporation has a revolving credit facility of up to \$40,000 of which \$1,650 is utilized (including letters of credit totaling \$1,650) as at March 31, 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:

Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2015 and 2014)

Remainder of 2015	\$	4,374
2016		5,304
2017		4,660
2018		3,278
2019		1,842
Subsequent		11,729
	\$	31,187

(ii) Linen purchase commitments

At March 31, 2015, the Corporation was committed to linen expenditure obligations in the amount of \$4,058 (December 31, 2014 – \$4,322) to be incurred within the next year.

(iii) Property, plant and equipment commitments

At March 31, 2015, the Corporation was committed to capital expenditure obligations in the amount of \$18,000 (December 31, 2014 – \$21,741) to be incurred within the next year.

6 Dividends to shareholders

During the three months ended March 31, 2015, the Corporation declared total dividends to shareholders of \$2,388 or \$0.300 per share (March 31, 2014 - \$2,039 or \$0.288 per share).

7 Net change in non-cash working capital items

	Three Months Ended	
	March 31,	
	2015	2014
Accounts receivable	\$ (527)	\$ 210
Linen in service	(284)	(1,645)
Prepaid expenses and deposits	(132)	(764)
Accounts payable and accrued liabilities	(677)	1,774
Income taxes payable	181	(662)
	\$ (1,439)	\$ (1,087)

8 Fair value of financial instruments

The Corporation's financial instruments at March 31, 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

Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2015 and 2014)

payable to shareholders approximate fair value due to the immediate or short-term maturity of these financial instruments.

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 March 31, 2015, the Corporation incurred such fees totaling \$35 (2014 – \$35).

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 three months ended March 31, 2015, the Corporation has recorded revenue of \$15,514 (2014 – \$14,936) from these three major customers, representing 45.9% (2014 – 46.3%) of total revenue.

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
Healthcare	\$ 23,857	70.5%	\$ 22,641	70.2%
Hospitality	9,963	29.5%	9,630	29.8%
	\$ 33,820	100.0%	\$ 32,271	100%

11 Subsequent events

a) Dividends

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

Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three months ended March 31, 2015 and 2014)

On May 6, 2015, the Board declared an eligible dividend of \$0.1000 per common share of the Corporation payable on June 15, 2015 to shareholders of record May 31, 2015.

b) Approval of Long-term Incentive Compensation

On May 6, 2015, the Board of Directors approved the recommendations of the Compensation, Nominating and Governance Committee with respect to long-term incentive compensation for the senior management of the Corporation. Total compensation to be awarded to employees is \$1,362 which will be satisfied through the issuance of treasury shares based on the five-day volume weighted average price for the period ending May 15, 2015.