K·BRO

Q1, 2014 Condensed Consolidated Financial Statements

dependable.

www.k-brolinen.com | inquiries@k-brolinen.com

K-Bro Linen Inc.

Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	March 31, 2014	December 31, 2013
ASSETS		
Current assets		
Accounts receivable	$ 15,255	$ 15,465
Income tax receivable	571	-
Linen in service	10,292	8,647
Prepaid expenses and deposits	1,681	917
	27,799	25,029
Property, plant and equipment (note 3)	57,222	57,972
Intangible assets	8,347	8,873
Goodwill	20,456	20,456
	$ 113,824	$ 112,330
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 16,598	$ 14,824
Income taxes payable	-	91
Dividends payable to shareholders	680	680
	17,278	15,595
Long-term debt (note 4)	18,609	19,640
Unamortized lease inducements	941	947
Deferred income taxes	5,516	5,032
	$ 42,344	$ 41,214
SHAREHOLDERS' EQUITY		
Share capital	72,158	72,158
Contributed surplus	2,104	1,732
Deficit	(2,782)	(2,774)
	$ 71,480	$ 71,116
Contingencies and commitments (note 5)		
	$ 113,824	$ 112,330

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

Condensed Consolidated Statements of Earnings & Comprehensive Income

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

	Three Months Ended March 31,	
	2014	2013
Revenue	**$ 32,271**	$ 31,647
Expenses		
Wages and benefits	**14,567**	14,634
Linen	**3,566**	3,240
Utilities	**2,491**	2,056
Delivery	**1,569**	1,537
Occupancy costs	**1,201**	947
Materials and supplies	**1,156**	955
Repairs and maintenance	**1,024**	1,062
Corporate	**1,410**	1,312
	26,984	25,743
EBITDA	**5,287**	5,904
Other expenses		
Depreciation of property, plant and equipment (note 3)	**1,664**	1,423
Amortization of intangible assets	**530**	551
Financial charges	**169**	123
Loss on disposal of property, plant and equipment	**28**	-
	2,391	2,097
Earnings before income taxes	**2,896**	3,807
Current income tax expense	**381**	945
Deferred income tax expense	**484**	100
Income tax expense	**865**	1,045
Net earnings and Comprehensive income	**2,031**	2,762
Net earnings per share:		
Basic	**$ 0.29**	$ 0.39
Diluted	**$ 0.29**	$ 0.39
Weighted average number of shares outstanding:		
Basic	**7,031,739**	7,018,581
Diluted	**7,072,163**	7,054,476

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

Condensed Consolidated Statements of Changes in Equity

(unaudited, thousands of Canadian dollars)

	Total Share Capital	Contributed surplus	Deficit	Total equity
As at December 31, 2013	$ 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

	Total Share Capital	Contributed surplus	Deficit	Total equity
As at December 31, 2012	$ 71,444	1,209	(4,968)	$ 67,685
Net earnings	-	-	2,762	2,762
Dividends declared (note 6)	-	-	(2,028)	(2,028)
Employee share based compensation expense	-	320	-	320
As at March 31, 2013	$ 71,444	1,529	(4,234)	$ 68,739

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

Condensed Consolidated Statements of Cash Flow

(unaudited, thousands of Canadian dollars)

	Three Months Ended March 31, 2014	2013
OPERATING ACTIVITIES		
Net earnings	$ 2,031	$ 2,762
Depreciation of property, plant and equipment (note 3)	1,664	1,423
Amortization of intangible assets	530	551
Lease inducements, net of amortization	(6)	(25)
Share-based compensation expense	372	320
Loss on disposal of property, plant and equipment	28	-
Deferred income taxes	484	100
	5,103	5,131
Change in non-cash balances relating to operations (note 7)	(1,087)	4,049
Cash provided by operating activities	4,016	9,180
FINANCING ACTIVITIES		
Net repayments of revolving credit facility	(1,031)	(656)
Dividends paid to shareholders (note 6)	(2,039)	(2,028)
Cash used in financing activities	(3,070)	(2,684)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (note 3)	(952)	(6,496)
Proceeds from disposal of property, plant and equipment	10	-
Purchase of intangible assets	(4)	-
Cash used in investing activities	(946)	(6,496)
Change in cash during the quarter	-	-
Cash, beginning of year	-	-
Cash, end of quarter	$ -	$ -
Supplementary cash flow information		
Interest paid	$ 129	$ 72
Income taxes paid	$ 1,043	$ 471

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

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 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 8, 2014.

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, 2013 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, 2014

The Corporation has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

- IFRIC 21, *Levies*, requires the Corporation to consider certain government imposed payments, or levies, such as property tax to determine whether the obligating event requiring recognition of a liability arises at a point in time or a period of time. As legislation can vary in different jurisdictions this change was applied and considered for each jurisdiction based on the relevant facts and circumstances. The adoption of IFRIC 21 did not result in any change to the method of recognizing liabilities arising from levies for the Corporation.

(unaudited, thousands of Canadian dollars except share and per share amounts,
three months ended March 31, 2014 and 2013)

3 Property, plant and equipment

	Land	Buildings	Laundry Equipment[1]	Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements	Spare Parts	Total
Year ended, December 31, 2013									
Opening net book amount	$ 125	$ 1,140	$ 31,856	$ 152	$ 517	$ 105	$ 4,507	$ 773	$ 39,175
Additions	-	23	15,247	154	100	389	8,964	37	24,914
Disposals	-	-	(100)	-	(52)	-	-	-	(152)
Depreciation charge	-	(89)	(4,457)	(38)	(74)	(114)	(1,193)	-	(5,965)
Closing net book amount	$ 125	$ 1,074	$ 42,546	$ 268	$ 491	$ 380	$ 12,278	$ 810	$ 57,972
At December 31, 2013									
Cost	$ 125	$ 1,400	$ 73,562	$ 771	$ 928	$ 2,025	$ 20,508	$ 810	$ 100,129
Accumulated depreciation	-	(326)	(31,016)	(503)	(437)	(1,645)	(8,230)	-	(42,157)
Net book amount	$ 125	$ 1,074	$ 42,546	$ 268	$ 491	$ 380	$ 12,278	$ 810	$ 57,972
Period ended, March 31, 2014									
Opening net book amount	**$ 125**	**$ 1,074**	**$ 42,546**	**$ 268**	**$ 491**	**$ 380**	**$ 12,278**	**$ 810**	**$ 57,972**
Additions	**-**	**-**	**843**	**19**	**-**	**48**	**42**	**-**	**952**
Disposals	**-**	**-**	**(23)**	**-**	**(2)**	**-**	**-**	**(13)**	**(38)**
Transfers	**-**	**-**	**5**	**-**	**-**	**-**	**-**	**(5)**	**-**
Depreciation charge	**-**	**(22)**	**(1,159)**	**(15)**	**(18)**	**(55)**	**(395)**	**-**	**(1,664)**
Closing net book amount	**$ 125**	**$ 1,052**	**$ 42,212**	**$ 272**	**$ 471**	**$ 373**	**$ 11,925**	**$ 792**	**$ 57,222**
At March 31, 2014									
Cost	**$ 125**	**$ 1,400**	**$ 74,165**	**$ 790**	**$ 893**	**$ 2,073**	**$ 20,550**	**$ 792**	**$100,788**
Accumulated depreciation	**-**	**(348)**	**(31,953)**	**(518)**	**(422)**	**(1,700)**	**(8,625)**	**-**	**(43,566)**
Net book amount	**$ 125**	**$ 1,052**	**$ 42,212**	**$ 272**	**$ 471**	**$ 373**	**$ 11,925**	**$ 792**	**$ 57,222**

(1) Included in laundry equipment are assets under development in the amount of $188. These assets are not available for service and accordingly are not presently being depreciated.

4 Long-term debt

	Bankers Acceptances[1]	Prime Rate Loan[2]	Total Long Term Debt
At January 1, 2013	$ 4,000	$ 1,818	$ 5,818
Repayment of debt	-	13,822	13,822
Closing Balance at December 31, 2013	4,000	15,640	19,640
Current portion of long-term debt	-	-	-
Non-current portion of long-term debt	$ 4,000	$ 15,640	$ 19,640
At January 1, 2014	**$ 4,000**	**$ 15,640**	**$ 19,640**
Repayment of debt	**-**	**(1,031)**	**(1,031)**
Closing Balance at March 31, 2014	**4,000**	**14,609**	**18,609**
Current portion of long-term debt	**-**	**-**	**-**
Non-current portion of long-term debt	**$ 4,000**	**$ 14,609**	**$ 18,609**

(1) Bankers' Acceptances bear interest at 30 day BA rates plus 1.25% depending on certain financial ratios, renewable monthly until July 31, 2016. As at March 31, 2014, the interest rate was 2.40%.

(2) Prime rate loan, collateralized by a general security agreement, bear interest at prime plus 0.0% depending on certain financial ratios, monthly repayment of interest only, maturing on July 31, 2016. As at March 31, 2014, the interest rate was 3.0%.

The Corporation has a revolving credit facility of up to $40,000 of which $19,259 is drawn (including letters of credit totaling $650) as at March 31, 2014. The agreement is a committed facility maturing on July 31, 2016. Interest payments only are due during the term of the facility.

(unaudited, thousands of Canadian dollars except share and per share amounts,
three months ended March 31, 2014 and 2013)

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 $650 (December 31, 2013 – $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:

Remainder of 2014	3,711
2015	3,967
2016	3,597
2017	3,187
2018	2,338
Subsequent	13,502
	$ 30,302

(ii) Linen purchase commitments

At March 31, 2014, the Corporation was committed to linen expenditure obligations in the amount of $4,592 (December 31, 2013 – $3,562) to be incurred within the next year.

(iii) Property, plant and equipment commitments

At March 31, 2014, the Corporation was committed to capital expenditure obligations in the amount of $21,288 (December 31, 2013 – $22,066) to be incurred within the next year.

6 Dividends to shareholders

During the three months ended March 31, 2014, the Corporation declared total dividends to shareholders of $2,039 or $0.288 per share (March 31, 2013 - $2,028 or $0.288 per share).

7 Net change in non-cash working capital items

	Three Months Ended March 31,	
	2014	2013
Accounts receivable	$ 210	$ (151)
Linen in service	(1,645)	106
Prepaid expenses and deposits	(764)	(85)
Accounts payable and accrued liabilities	1,774	3,703
Income taxes payable	(662)	476
	$ (1,087)	$ 4,049

(unaudited, thousands of Canadian dollars except share and per share amounts,
three months ended March 31, 2014 and 2013)

8 Fair value of financial instruments

The Corporation's financial instruments at March 31, 2014 consist of accounts receivable, accounts payable and accrued liabilities, dividends payable to shareholders, 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.

9 Related party transactions

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 recorded at their exchange amounts and are subject to normal trade terms. For the three months ended March 31, 2014, the Corporation incurred such fees totaling $35 (2013 – $35).

10 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.

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, 2014, the Corporation has recorded revenue of $14,936 (2013 – $14,633) from these three major customers, representing 46.3% (2013 – 46.2%) of total revenue.

	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
Healthcare	**$**	**22,641**	**70.2%**	$	22,288	70.4%
Hospitality		**9,630**	**29.8%**		9,359	29.6%
	$	**32,271**	**100.0%**	$	31,647	100%

11 Subsequent events

a) Dividends

On April 15, 2014, the Board declared an eligible dividend of $0.0958 per common share of the Corporation payable on May 15, 2014 to shareholders of record April 30, 2014.

On May 8, 2014, the Board declared an eligible dividend of $0.1000 per common share of the Corporation payable on June 13, 2014 to shareholders of record May 31, 2014.

b) Purchase of Land

On April 29, 2014, the Corporation acquired two parcels of land for an aggregate cost of $2,271. The land has been purchased in connection with the future development of a new processing facility.

c) Approval of Long-term Incentive Compensation

On May 8, 2014, 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 $1,375 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, 2014.