



Q2, 2014
Condensed
Consolidated
Financial
Statements

dependable.

Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets		
Accounts receivable	\$ 17,926	\$ 15,465
Income tax receivable	430	-
Linen in service	10,256	8,647
Prepaid expenses and deposits	961	917
	29,573	25,029
Property, plant and equipment (note 4)	60,138	57,972
Intangible assets	7,817	8,873
Goodwill	20,456	20,456
	\$ 117,984	\$ 112,330
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 15,377	\$ 14,824
Income taxes payable	-	91
Dividends payable to shareholders	713	680
	16,090	15,595
Long-term debt (note 5)	22,587	19,640
Unamortized lease inducements	926	947
Deferred income taxes	5,568	5,032
	\$ 45,171	\$ 41,214
SHAREHOLDERS' EQUITY		
Share capital	72,547	72,158
Contributed surplus	1,817	1,732
Deficit	(1,551)	(2,774)
	\$ 72,813	\$ 71,116
Contingencies and commitments (note 6)	\$ 117,984	\$ 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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue	\$ 34,348	\$ 32,660	\$ 66,619	\$ 64,307
Expenses				
Wages and benefits	15,281	14,936	29,848	29,570
Linen	3,613	3,464	7,179	6,704
Utilities	2,068	2,121	4,559	4,177
Delivery	1,538	1,411	3,107	2,948
Occupancy costs	1,221	971	2,422	1,918
Materials and supplies	1,060	1,033	2,216	1,988
Repairs and maintenance	1,055	1,013	2,079	2,075
Corporate	1,508	1,454	2,918	2,766
	27,344	26,403	54,328	52,146
EBITDA	7,004	6,257	12,291	12,161
Other expenses				
Depreciation of property, plant and equipment (note 4)	1,686	1,411	3,350	2,834
Amortization of intangible assets	530	529	1,060	1,080
Financial charges	196	127	365	250
Loss on disposal of property, plant and equipment	12	78	40	78
	2,424	2,145	4,815	4,242
Earnings before income taxes	4,580	4,112	7,476	7,919
Current income tax expense	1,195	1,026	1,576	1,971
Deferred income tax expense	52	200	536	300
Income tax expense	1,247	1,226	2,112	2,271
Net earnings and Comprehensive income	3,333	2,886	5,364	5,648
Net earnings per share:				
Basic	\$ 0.47	\$ 0.41	\$ 0.76	\$0.81
Diluted	\$ 0.47	\$ 0.41	\$ 0.76	\$0.80
Weighted average number of shares outstanding:				
Basic	7,033,601	7,020,441	7,032,675	7,013,765
Diluted	7,083,348	7,038,100	7,082,330	7,029,605

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	-	-	5,364	5,364
Dividends declared (note 7)	-	-	(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

	Total Share Capital	Contributed surplus	Deficit	Total equity
As at December 31, 2012	\$ 71,444	1,209	(4,968)	\$ 67,685
Net earnings	-	-	5,648	5,648
Dividends declared (note 7)	-	-	(4,064)	(4,064)
Employee share based compensation expense	-	697	-	697
Shares vested during the period	714	(714)	-	-
As at June 30, 2013	\$ 72,158	1,192	(3,384)	\$ 69,966

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
OPERATING ACTIVITIES				
Net earnings	\$ 3,333	\$ 2,886	\$ 5,364	\$ 5,648
Depreciation of property, plant and equipment (note 4)	1,686	1,411	3,350	2,834
Amortization of intangible assets	530	529	1,060	1,080
Lease inducements, net of amortization	(15)	(23)	(21)	(49)
Cash settled employee share based compensation	(37)	-	(37)	-
Share-based compensation expense	139	377	511	697
Loss on disposal of property, plant and equipment	12	78	40	78
Deferred income taxes	52	200	536	300
	5,700	5,457	10,803	10,588
Change in non-cash balances relating to operations (note 8)	(2,995)	(6,956)	(4,082)	(2,907)
Cash provided by operating activities	2,705	(1,499)	6,721	7,681
FINANCING ACTIVITIES				
Net proceeds of revolving credit facility	3,978	10,176	2,947	9,520
Dividends paid to shareholders (note 7)	(2,069)	(2,032)	(4,108)	(4,060)
Cash used in financing activities	1,909	8,144	(1,161)	5,460
INVESTING ACTIVITIES				
Purchase of property, plant and equipment (note 4)	(4,626)	(6,689)	(5,578)	(13,185)
Proceeds from disposal of property, plant and equipment	12	44	22	44
Purchase of intangible assets	-	-	(4)	-
Cash used in investing activities	(4,614)	(6,645)	(5,560)	(13,141)
Change in cash during the quarter	-	-	-	-
Cash, beginning of year	-	-	-	-
Cash, end of quarter	\$ -	\$ -	\$ -	\$ -
Supplementary cash flow information				
Interest paid	\$ 152	\$ 98	\$ 281	\$ 170
Income taxes paid	\$ 1,054	\$ 3,770	\$ 2,097	\$ 4,241

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

Notes to the Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2014 and 2013)

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 August 12, 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.

- IFRS 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.

3 New Standards and interpretations not yet adopted

The following standard has been issued but has not yet been applied in preparing the interim condensed consolidated financial statements.

- IFRS 15, *Revenue from Contracts with Customers*, was issued in May 2014 by the IASB and supersedes IAS 18, "Revenue", IAS 11 "Construction Contracts" and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The company is in the process of evaluating the impact that IFRS 15 may have on the financial statements.

Notes to the Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2014 and 2013)

4 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, June 30, 2014									
Opening net book amount	\$ 125	\$ 1,074	\$ 42,546	\$ 268	\$ 491	\$ 380	\$ 12,278	\$ 810	\$ 57,972
Additions	2,267	-	2,920	33	4	103	240	11	5,578
Disposals	-	-	(32)	-	(18)	-	-	(12)	(62)
Transfers	-	-	5	-	-	-	-	(5)	-
Depreciation charge	-	(45)	(2,338)	(33)	(36)	(112)	(786)	-	(3,350)
Closing net book amount	\$ 2,392	\$ 1,029	\$ 43,101	\$ 268	\$ 441	\$ 371	\$ 11,732	\$ 804	\$ 60,138

At June 30, 2014									
Cost	\$ 2,392	\$ 1,400	\$ 76,455	\$ 804	\$ 914	\$ 2,128	\$ 20,748	\$ 804	\$ 105,645
Accumulated depreciation	-	(371)	(33,354)	(536)	(473)	(1,757)	(9,016)	-	(45,507)
Net book amount	\$ 2,392	\$ 1,029	\$ 43,101	\$ 268	\$ 441	\$ 371	\$ 11,732	\$ 804	\$ 60,138

⁽¹⁾ Included in laundry equipment are assets under development in the amount of \$907. These assets are not available for service and accordingly are not presently being depreciated.

5 Long-term debt

	Bankers Acceptances ⁽¹⁾	Prime Rate Loan ⁽²⁾	Total Long Term Debt
At January 1, 2013	\$ 4,000	\$ 1,818	\$ 5,818
Proceeds from 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
Proceeds from debt	-	2,947	2,947
Closing Balance at June 30, 2014	4,000	18,587	22,587
Current portion of long-term debt	-	-	-
Non-current portion of long-term debt	\$ 4,000	\$ 18,587	\$ 22,587

⁽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 June 30, 2014, the interest rate was 2.45%.

⁽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 June 30, 2014, the interest rate was 3.0%.

The Corporation has a revolving credit facility of up to \$40,000 of which \$23,237 is drawn (including letters of credit totaling \$650) as at June 30, 2014. The agreement is a committed facility maturing on July 31, 2016. Interest payments only are due during the term of the facility.

Notes to the Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2014 and 2013)

6 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	2,530
2015	4,029
2016	3,645
2017	3,234
2018	2,385
Subsequent	13,525
	\$ 29,348

(ii) Linen purchase commitments

At June 30, 2014, the Corporation was committed to linen expenditure obligations in the amount of \$3,439 (December 31, 2013 – \$3,562) to be incurred within the next year.

(iii) Property, plant and equipment commitments

At June 30, 2014, the Corporation was committed to capital expenditure obligations in the amount of \$18,053 (December 31, 2013 – \$22,066) to be incurred within the next year.

7 Dividends to shareholders

During the three months ended June 30, 2014, the Corporation declared total dividends to shareholders of \$2,102 or \$0.296 per share (June 30, 2013 - \$2,036 or \$0.288 per share). During the six months ended June 30, 2014, the Corporation declared total dividends to shareholders of \$4,141 or \$0.583 per share (2013 - \$4,064 or \$0.575 per share).

8 Net change in non-cash working capital items

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Accounts receivable	\$ (2,671)	\$ (29)	\$ (2,461)	\$ (180)
Linen in service	36	(212)	\$ (1,609)	(106)
Prepaid expenses and deposits	720	94	\$ (44)	9
Accounts payable and accrued liabilities	(1,221)	(4,055)	\$ 553	(352)
Income taxes payable/receivable	141	(2,754)	\$ (521)	(2,278)
	(2,995)	\$ (6,956)	\$ (4,082)	\$ 2,907

Notes to the Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2014 and 2013)

9 Fair value of financial instruments

The Corporation's financial instruments at June 30, 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.

10 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 June 30, 2014, the Corporation incurred such fees totaling \$35 (2013 - \$35). For the six months ended June 30, 2014, the Corporation incurred such fees totaling \$69 (2013 - \$69).

11 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 six months ended June 30, 2014, the Corporation has recorded revenue of \$30,638 (2013 - \$29,698) from these three major customers, representing 46.0% (2013 - 46.2%) of total revenue.

	Three Months Ended June 30, 2014		Three Months Ended June 30, 2013	
Healthcare	\$	23,330 67.9%	\$	22,124 67.7%
Hospitality		11,018 32.1%		10,536 32.3%
	\$	34,348 100.0%	\$	32,660 100%

	Six Months Ended June 30, 2014		Six Months Ended June 30, 2013	
Healthcare	\$	45,971 69.0%	\$	44,412 69.1%
Hospitality		20,648 31.0%		19,895 30.9%
	\$	66,619 100.0%	\$	64,307 100%

12 Subsequent events

On July 15, 2014, the Board declared an eligible dividend of \$0.10 per common share of the Corporation payable on August 15, 2014 payable to shareholders of record July 31, 2014.

On August 12, 2014, the Board declared an eligible dividend of \$0.10 per common share of the Corporation payable on September 15, 2014 payable to shareholders of record August 31, 2014.