K·BRO

Q3, 2014 Condensed Consolidated Financial Statements

dependable.

K-Bro Linen Inc.

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Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets		
Accounts receivable	$ 15,884	$ 15,465
Income tax receivable	41	-
Linen in service	9,629	8,647
Prepaid expenses and deposits	1,355	917
	26,909	25,029
Property, plant and equipment (note 4)	63,332	57,972
Intangible assets	7,286	8,873
Goodwill	20,456	20,456
	$ 117,983	$ 112,330
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 14,256	$ 14,824
Income taxes payable	-	91
Dividends payable to shareholders	714	680
	14,970	15,595
Long-term debt (note 5)	21,908	19,640
Unamortized lease inducements	888	947
Deferred income taxes	5,471	5,032
	$ 43,237	$ 41,214
SHAREHOLDERS' EQUITY		
Share capital	72,547	72,158
Contributed surplus	2,136	1,732
Retained earnings (deficit)	63	(2,774)
	$ 74,746	$ 71,116
Contingencies and commitments (note 6)		
	$ 117,983	$ 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 September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Revenue	**$ 36,028**	$ 34,551	**$ 102,647**	$ 98,858
Expenses				
Wages and benefits	**16,160**	16,169	**46,008**	45,739
Linen	**3,760**	3,476	**10,940**	10,180
Utilities	**2,173**	2,073	**6,732**	6,250
Delivery	**1,590**	1,520	**4,697**	4,468
Occupancy costs	**1,117**	2,125	**3,539**	4,043
Materials and supplies	**1,219**	1,174	**3,434**	3,162
Repairs and maintenance	**961**	1,016	**3,040**	3,091
Corporate	**1,431**	1,263	**4,349**	4,029
	28,411	28,816	**82,739**	80,962
EBITDA	**7,617**	5,735	**19,908**	17,896
Other expenses				
Depreciation of property, plant and equipment (note 4)	**1,742**	1,357	**5,092**	4,191
Amortization of intangible assets	**531**	530	**1,591**	1,610
Financial charges	**125**	169	**490**	419
Loss on disposal of property, plant and equipment	**37**	5	**77**	83
	2,435	2,061	**7,250**	6,303
Earnings before income taxes	**5,182**	3,674	**12,658**	11,593
Current income tax expense	**1,530**	1,046	**3,105**	3,017
Deferred income tax expense (recovery)	**(99)**	57	**438**	357
Income tax expense	**1,431**	1,103	**3,543**	3,374
Net earnings and Comprehensive income	**3,751**	2,571	**9,115**	8,219
Net earnings per share:				
Basic	**$ 0.53**	$ 0.37	**$ 1.30**	$1.17
Diluted	**$ 0.53**	$ 0.36	**$ 1.29**	$1.17
Weighted average number of shares outstanding:				
Basic	**7,041,704**	7,031,487	**7,035,718**	7,019,737
Diluted	**7,095,889**	7,054,936	**7,089,544**	7,041,823

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	Retained earnings (deficit)	Total equity
As at December 31, 2013	$ 72,158	1,732	(2,774)	$ 71,116
Net earnings	-	-	9,115	9,115
Dividends declared (note 7)	-	-	(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)	-	-
As at September 30, 2014	$ 72,547	2,136	63	$ 74,746

	Total Share Capital	Contributed surplus	Retained earnings (deficit)	Total equity
As at December 31, 2012	$ 71,444	1,209	(4,968)	$ 67,685
Net earnings	-	-	8,219	8,219
Dividends declared (note 7)	-	-	(6,103)	(6,103)
Employee share based compensation expense	-	977	-	977
Shares vested during the period	714	(714)	-	-
As at September 30, 2013	$ 72,158	1,472	(2,852)	$ 70,778

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 September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
OPERATING ACTIVITIES				
Net earnings	$ 3,751	$ 2,571	$ 9,115	$ 8,219
Depreciation of property, plant and equipment (note 4)	1,742	1,357	5,092	4,191
Amortization of intangible assets	531	530	1,591	1,610
Lease inducements, net of amortization	(38)	(25)	(59)	(74)
Cash settled employee share based compensation	-	-	(37)	-
Employee share based compensation expense	319	279	830	977
Loss on disposal of property, plant and equipment	37	5	77	83
Deferred income taxes	(99)	57	438	357
	6,243	4,774	17,047	15,363
Change in non-cash working capital items (note 8)	1,544	332	(2,539)	(2,576)
Cash provided by operating activities	7,787	5,106	14,508	12,787
FINANCING ACTIVITIES				
Net proceeds of revolving credit facility	(679)	1,690	2,268	11,210
Dividends paid to shareholders (note 7)	(2,136)	(2,039)	(6,244)	(6,099)
Cash used in financing activities	(2,815)	(349)	(3,976)	5,111
INVESTING ACTIVITIES				
Purchase of property, plant and equipment (note 4)	(4,984)	(4,757)	(10,562)	(17,942)
Proceeds from disposal of property, plant and equipment	11	-	33	44
Purchase of intangible assets	-	-	(4)	-
Cash used in investing activities	(4,973)	(4,757)	(10,533)	(17,898)
Change in cash during the period	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	$ -	$ -	$ -	$ -
Supplementary cash flow information				
Interest paid	$ 159	$ 119	$ 440	$ 288
Income taxes paid	$ 1,139	$ 974	$ 3,236	$ 5,215

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 nine months ended September 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 and a 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 November 13, 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.

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4 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, 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, September 30, 2014									
Opening net book amount	$ 125	$ 1,074	$ 42,546	$ 268	$ 491	$ 380	$ 12,278	$ 810	$ 57,972
Additions	2,301	1,494	6,188	46	69	146	314	4	10,562
Disposals	-	-	(34)	-	(63)	-	-	(13)	(110)
Transfers	-	-	-	-	-	-	-	-	-
Depreciation charge	-	(67)	(3,558)	(52)	(56)	(172)	(1,187)	-	(5,092)
Closing net book amount	$ 2,426	$ 2,501	$ 45,142	$ 262	$ 441	$ 354	$ 11,405	$ 801	$ 63,332
At September 30, 2014									
Cost	$ 2,426	$ 2,894	$ 79,716	$ 817	$ 934	$ 2,171	$ 20,822	$ 801	$110,581
Accumulated depreciation	-	(393)	(34,574)	(555)	(493)	(1,817)	(9,417)	-	(47,249)
Net book amount	$ 2,426	$ 2,501	$ 45,142	$ 262	$ 441	$ 354	$ 11,405	$ 801	$ 63,332

(1) Included in buildings are assets under development in the amount of $1,494. 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 $3,234. 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	-	2,268	2,268
Closing Balance at September 30, 2014	4,000	17,908	21,908
Current portion of long-term debt	-	-	-
Non-current portion of long-term debt	$ 4,000	$ 17,908	$ 21,908

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

The Corporation has a revolving credit facility of up to $40,000 of which $22,558 is drawn (including letters of credit totaling $650) as at September 30, 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 and nine months ended September 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	$	**1,396**
2015		**5,539**
2016		**5,171**
2017		**4,512**
2018		**3,261**
Subsequent		**13,573**
	$	**33,452**

(ii) Linen purchase commitments

At September 30, 2014, the Corporation was committed to linen expenditure obligations in the amount of $1,724 (December 31, 2013 – $3,562) to be incurred within the next year.

(iii) Property, plant and equipment commitments

At September 30, 2014, the Corporation was committed to capital expenditure obligations in the amount of $25,458 (December 31, 2013 – $22,066) to be incurred within the next year.

7 Dividends to shareholders

During the three months ended September 30, 2014, the Corporation declared total dividends to shareholders of $2,137 or $0.300 per share (September 30, 2013 - $2,039 or $0.288 per share). During the nine months ended September 30, 2014, the Corporation declared total dividends to shareholders of $6,278 or $0.883 per share (2013 - $6,103 or $0.862 per share).

8 Net change in non-cash working capital items

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Accounts receivable	$ 2,042	$ (439)	$ (419)	$ (619)
Linen in service	627	(108)	(982)	(213)
Prepaid expenses and deposits	(394)	(273)	(438)	(264)
Accounts payable and accrued liabilities	(1,121)	1,072	(568)	718
Income taxes payable	390	80	(132)	(2,198)
	$ 1,544	$ 332	$ (2,539)	$ (2,576)

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

9 Fair value of financial instruments

The Corporation's financial instruments at September 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 September 30, 2014, the Corporation incurred such fees totaling $35 (2013 – $35). For the nine months ended September 30, 2014, the Corporation incurred such fees totaling $104 (2013 – $104).

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 nine months ended September 30, 2014, the Corporation has recorded revenue of $45,793 (2013 – $44,050) from these three major customers, representing 44.6% (2013 – 44.6%) of total revenue.

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
Healthcare	$	23,068	64.0%	$	21,874	63.3%
Hospitality		12,960	36.0%		12,677	36.7%
	$	36,028	100.0%	$	34,551	100%

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
Healthcare	$	69,039	67.3%	$	66,286	67.1%
Hospitality		33,608	32.7%		32,572	32.9%
	$	102,647	100.0%	$	98,858	100%

12 Subsequent events

On October 15, 2014, the Board declared an eligible dividend of $0.10 per common share of the Corporation payable on November 14, 2014 payable to shareholders of record October 31, 2014.

On November 13, 2014, the Board declared an eligible dividend of $0.10 per common share of the Corporation payable on December 15, 2014 payable to shareholders of record November 30, 2014.