dependable.

K-Bro Linen Inc.

K·BRO

2013 Annual Report

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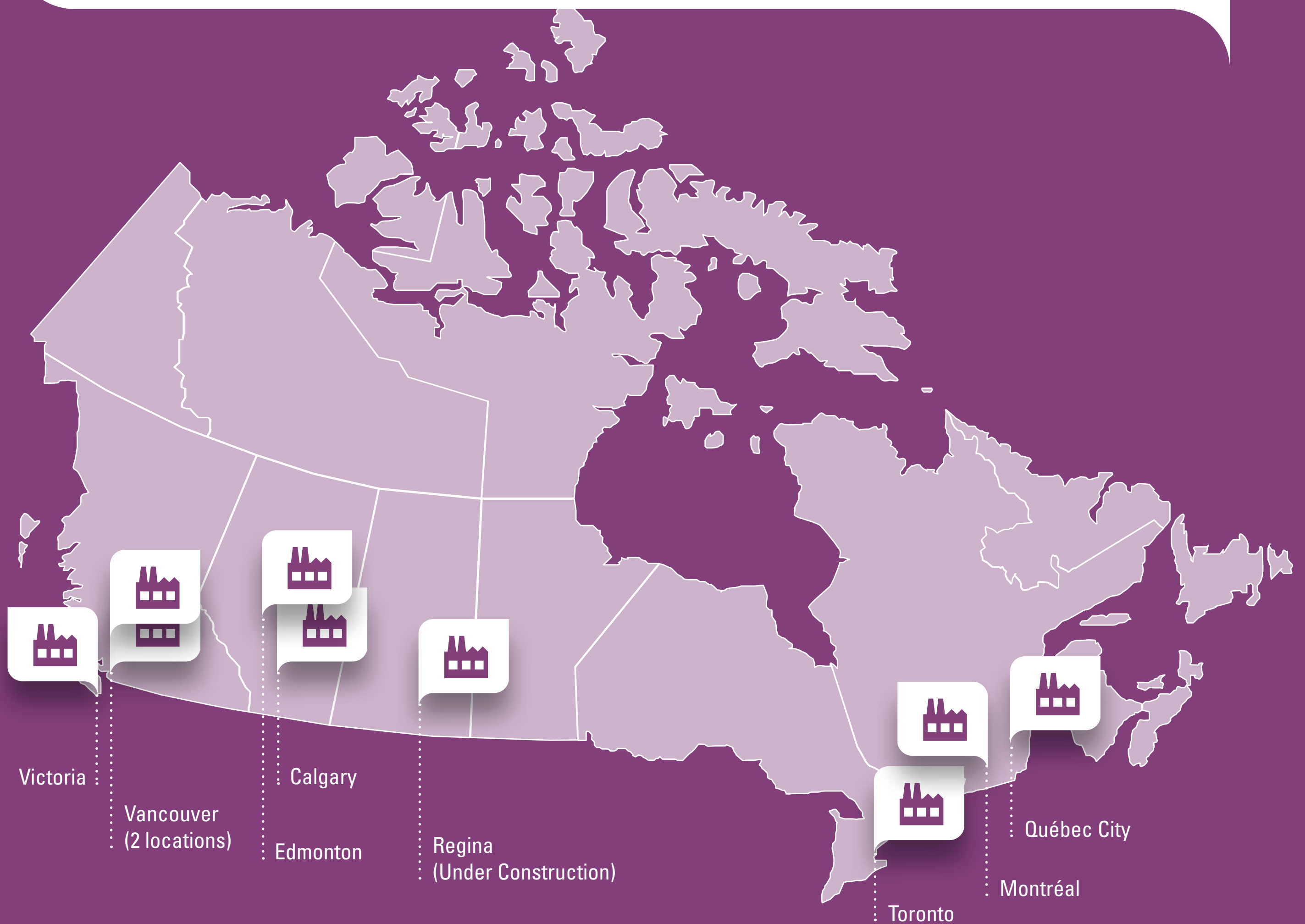
We are
dependable.

Plant Locations

K-Bro is the largest healthcare & hospitality laundry and linen processor in Canada.



President's Message

2013 was a year of accomplishments and continued progress for K-Bro. We remained focus on our core business of providing the best possible laundry and linen services to our valued customers, and as a result we were rewarded with the continuing loyalty of our existing customers and the trust of many new ones.

Our company was founded in Edmonton in 1952, and it is with great pride that we opened our newest facility there in 2013. Our 124,000 square foot facility—new, modern and highly-automated—enables us to continue providing outstanding quality and service to our customers. As expected, the start-up of our new Edmonton facility brought transition costs and some margin impairment, but we are excited and focused on the increased efficiencies that we are already realizing from our new facility. Our Edmonton healthcare contract runs well into the next decade, and were are looking forward to continuing many years of a successful partnership with our healthcare and hospitality customers.

Another key 2013 milestone for K-Bro was our agreement with 3sHealth, to provide services to the entire province of Saskatchewan for at least 10 years. While we have been providing service to much of the province on a temporary basis from our Calgary plant, we are excited to begin building our new Regina plant in 2014 and process Saskatchewan's volume from this new modern facility.

With all of our new customers and contract renewals from existing customers, we enter 2014 with more than 98% of our healthcare business under long-term contracts, typically 10-years. As a result, we have significant visibility and are able to plan for our future with great confidence.

While our new Edmonton and Regina plants receive a lot of attention, we continue to deliver outstanding results by working hard to earn the confidence and trust of existing and new customers every day. Because of their confidence and the tremendous commitment and capabilities of our more than 1600 employees, 2013 was a year of success:

- Total shareholder return of 41.1%;
- Revenue in excess of $131 million compared with $126 million in 2012;
- EBITDA of $23.3 million compared with $24.5 million in 2012 (with $1.1mm representing a temporary decline as the new Edmonton plant begins operating);
- Market capitalization of $281 million at December 31, 2013, and a very low debt to total capitalization ratio of 0.2x;
- Earnings per share of $1.47, compared with $1.60 in 2012; and,
- $8.1 million in dividends, representing 44% of our distributable cash flows.

We will always ensure that our business adapts to new and changing customer needs and we maintain our quality execution and differentiation in everything we do. We will continue to make significant investments in our people and our facilities to ensure that we build upon the many strengths that have made us the leader in our market. For while we take great pride in providing the best possible service to our more than 1,700 customers across Canada, we know we must continue to find ways to improve every single day.

On behalf of our management team and our 1,600 dedicated employees, thank you for your continued support of K-Bro.

Linda McCurdy

President and Chief Executive Officer

Chairman's Message

Since inception, K-Bro has been a leader in good governance practices and the composition of our Board has reflected the skills and experience required to address the current issues and business environment. Our Directors provide independent thinking and counsel as it pertains to long-term strategy, succession and governance for our company.

We are both excited and realistic about the future. We continue to invest capital to improve our position in the marketplace as well as to solidify our ability to face competition in our markets. Our growth potential is significant and our investments are about to pay off. We have the right equipment and proven capabilities, great employees and are seeing a strong demand for our services throughout the country.

K-Bro has been safely delivering critical services across the nation for 60 years and has a solid track record of sustainable growth, reliable operations, and treating our hospitality customers, healthcare partners and stakeholders with integrity and respect. This consistent approach has served us well in the past and we believe will continue to do in the future.

The market's confidence in us shows that we are well on our way to achieving our vision of being a leading laundry and linen services processor. To get there, we will continue to rely on the foundation of our existing asset base, the industry's most talented and dedicated employees, and our financial strength and flexibility.

On behalf of K-Bro, I thank all of our shareholders and other stakeholders for your continued confidence and commitment to K-Bro. We will continue to work hard everyday to earn your trust.

Ross Smith
Chairman

Board of Directors

(Left to right) - Linda McCurdy, Steve Matyas, Mike Percy, Ross Smith, Matt Hills

General Managers

(Left to right) - Ken Chu, Jerry Ostrzyzek, Jeff Gannon, Kevin Stephenson, Maxim Lortie, Sean Curtis, Sean Jackson, Ron Graham

K-Bro is the largest healthcare and hospitality laundry and linen processor in Canada. K-Bro operates eight facilities in seven cities, providing management services and laundry processing of hospitality, healthcare and speciality linens. Our core values are central to our reputation, our quality is industry-leading, and our ability to deliver on commitments to customers is second to none.

K-Bro provides the vital products and services that help people heal, travel, live, and play. We're helping hospitals and extended care centres care for the young, old and vulnerable in environmentally responsible ways. Our responsibility also extends to ensuring that we have a safe culture at K-Bro. As our society grows, we integrate our commitment to responsibility into our new businesses, employees and the communities in which we live and work.

We are dependable.

By expanding our capabilities into new markets, we have opportunities to leverage our operating strengths, grow our revenue, and further enhance operating margins, ensuring consistent value creation for stakeholders.

Linda McCurdy
President and Chief Executive Officer

K-Bro has a stable business model with strong fundamentals that support our market valuation and reliable shareholder dividends.

Christopher Burrows
Vice-President and Chief Financial Officer

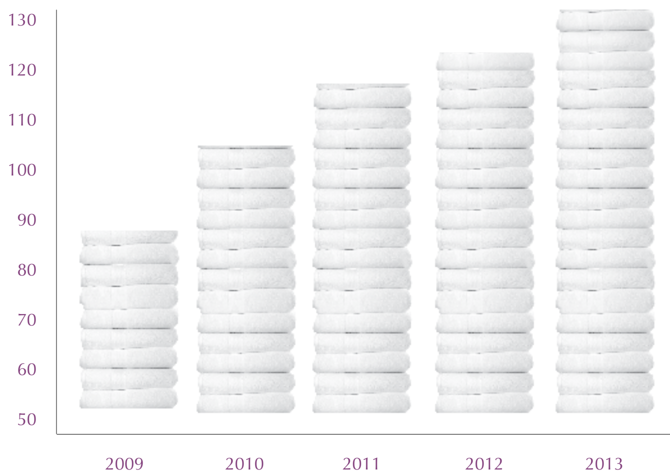
Quality, innovation, and respect for our customers, employees and communities is at the very center of everything we have done for the past 50 years. We have positioned K-Bro to be the preeminent partner of choice by providing services across the country.

Sean Curtis
Senior Vice-President and General Manager

Financial Highlights

The following unaudited financial data has been derived from K-Bro's consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP. The information set forth below should be read in conjunction with the Management's Discussion & Analysis, Consolidated Financial Statements and Notes sections of this Annual Report.

REVENUE



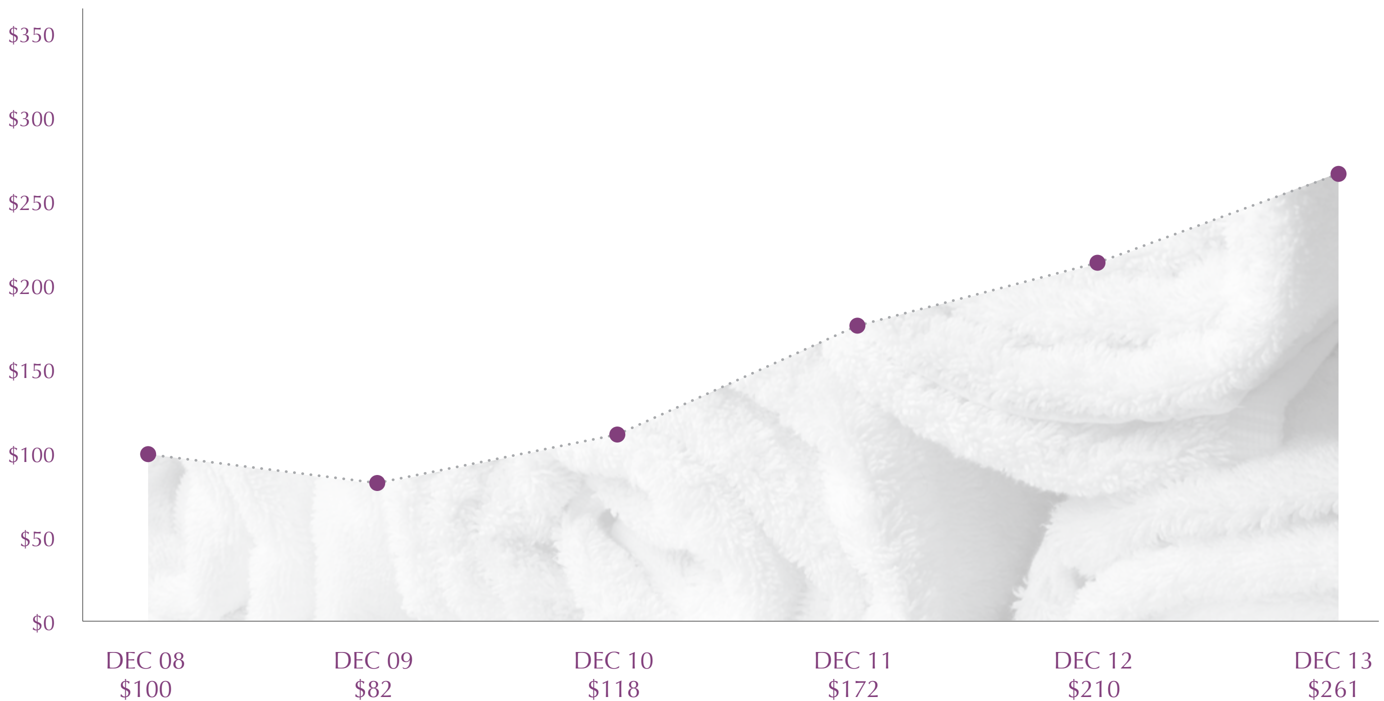
REVENUE (In millions of Canadian dollars) Years ended December 31

EBITDA

EBITDA (In millions of Canadian dollars) Years ended December 31

TOTAL SHAREHOLDER RETURN

(on a $100 investment in 2008)



In order to be successful, a company must have a vision. We continue to be committed to remaining as Canada's premier linen processing company. We focus on businesses that we know and understand – laundry and linen processing – in regions where we have an existing competitive advantage or can develop one. Long-term contracts supported by an experienced workforce and large scale assets are the priority – relationships coupled with assets that provide attractive and sustainable returns.

Over the past decade, K-Bro has invested over $80 million in high quality plants, investments that have allowed the company to move forward in achieving its vision. Today, we play a significant role in the provision of high quality healthcare and also in business and leisure travel markets.

We are the largest healthcare and hospitality laundry & linen processor in Canada.

We are dependable.

In aggregate, our eight plants provided services to more than 1,500 customers and employed almost 1,600 employees in 2013. At December 31, 2013, total assets were $112 million, equity was $71 million and market capitalization was $281 million.

Diversified and integrated services – we provide critical services, support and management of linen requirements that address each and every one of our customers' needs.

Strategically positioned – K-Bro has 8 plants located in 7 different cities, which ensures our ability to provide uninterrupted service in the wake of disasters, pandemics or other adversity.

Long-term stable contracts – by anticipating our customers' needs, delivering consistently dependable service and acting with integrity, K-Bro has developed long-term relationships with its customers.

Committed workforce – our corporate culture enables us to attract and retain quality laundry staff and our national presence provides opportunities for career advancement. Five members of our senior management team commenced their careers with K-Bro and have an average tenure in excess of 20 years.

Single source for customers – K-Bro is able to deliver total linen management services, including laundering, drying, folding, quota cart development, sterilization, and more that focuses on efficiencies and cost savings. We are one of the largest consumers of linens and textiles in Canada. We leverage our market position to drive savings for our customers. K-Bro works in partnership with our clients to reduce their linen consumption.

One of our key strategies for growth is to pursue opportunities for expansion through acquisition. We follow a strict set of criteria when evaluating another organization's potential, examining every facet of a target company – does it open up a new or strategically placed geographic market or market niche for us? Is there a potential for growth in the market it serves? Will we be able to build on relationships the company already has in place? Can we build on an already-existing base of business? Does it enhance our resources overall?

Taking advantage of relationships already in place includes maintaining the existing labour and management of a company. The ability and commitment demonstrated by staff members is a factor in our decision-making process for acquisitions. The bottom line is that we want profitable, dependable operations where we can bring our expertise and resources to grow the existing base of business. We continue to review and pursue accretive opportunities in new markets and we believe that such opportunities may be available in the future to further add to our growth.

In our industry, we're dependent on our reputation, resources, and track record as we develop relationships with potential and new clients and compete for contracts. These factors are also critical in maintaining stable, responsive, and loyal relationships with our existing customers.

Sean Curtis
Senior Vice-President and General Manager

In 2013, K-Bro excelled at discovering and winning new opportunities and clients, building on the successes we've had in our decades of experience as leaders in our sector.

At K-Bro, we innovate and develop new processes and systems, and further refine business delivery and practices.

In 2013, K-Bro excelled at discovering and winning new opportunities and clients, building on the successes we've had in our decades of experience as leaders in our sector. We obtained significant new business from our competitors in important locations. In British Columbia, we added four major hospitality customers to our base, three in Quebec, three in Ontario, and in Alberta we added two additional hoteliers and extended agreements with several more. Our new clients include some of the finest hotels in the country.

Each new customer was a victory for the entire K-Bro team and a reflection of the company as a whole, rather than any individual. The qualities that contribute to our success are the same ones that define us as leaders in customer service – an impeccable and dependable record, comprehensive service programs, financial stability, competitive costs, experience in transitioning large accounts, and having the resources to support growth, including the ability to purchase linen and equipment in anticipation of higher volume.

Our policy at K-Bro has always been one of proactive response. In order to meet our goal of being the absolute best laundry and linen services provider in the country, we continually review our service offerings, adding to our menu and providing more comprehensive service capabilities than other linen companies. We watch our industry and think ahead to strategically address the future needs of the markets we serve. Our established relationships and experience contribute to our thinking – our clients talk to us not only about their present needs, but about the directions they see themselves going in. They **depend** on the knowledge we've accumulated over our history.

During 2013 we commissioned a new Edmonton processing facility. Our customer's needs had outgrown our former facility. Furthermore, there were significant process efficiencies to be realized from a newly designed facility.

While the construction and commissioning came at a cost of almost $28 million, and negatively impacted our profit margin during 2013, the productivity gains and efficiency improvements will more than offset the costs related to the new facility. We remain excited about opportunities which are available due to the increased capacity in the region.

K-Bro's value-added services provide a 'one-stop shop' for linen services, and currently include:

- Exchange cart preparation
- Delivery of carts to user wards and departments
- Reusable OR linen and pack rental (KOR services)
- Distribution and control of uniforms
- Personal clothing services
- Customer service programs
- Linen purchase and supply
- Linen inventory management reports and services
- Sterilization of operating room linen packs

At K-Bro, we will innovate and develop new processes and systems, and further refine business delivery and practices. When we launched our company on the public markets, we stated that we were ready for whatever lay ahead of us. As the events of the next nine years unfolded, our readiness contributed to our success in dependability and growth. The hands-on nature of our management team and established relationships with open lines of communication with our customers is the very source of our advantage. **We are dependable**.

The following selected unaudited financial data has been derived from K-Bro's consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP. The information set forth below should be read in conjunction with the Management's Discussion & Analysis, Consolidated Financial Statements and Notes sections of this Annual Report.

($ Thousands, except per share data and percentages)	Years ended December 31[1]					
	2013	2012	2011	2010	2009	2008
INCOME STATEMENT DATA						
Revenue	131,202	126,290	116,859	104,051	87,533	85,113
EBITDA	23,317	24,517	19,946	16,877	15,547	12,395
EBITDA *(%)*	17.8	19.4	17.1	16.2	17.8	14.6
Net earnings	10,336	11,149	7,928	6,953	7,802	4,722
Net earnings per Share *(Diluted)*	1.47	1.59	1.14	0.99	1.11	0.70
BALANCE SHEET DATA						
Working capital	9,434	8,064	7,245	8,664	7,896	3,533
Long-term debt	19,640	5,818	6,095	10,763	4,043	4,061
OTHER FINANCIAL DATA						
Distributable cash per share	2.61	2.72	2.40	2.15	1.99	1.63
Payout ratio *(%)*	44.2	41.8	45.9	51.4	55.1	68.4
Price to earnings multiple *(12 month trailing)*	27.0	18.1	19.6	18.5	12.1	13.9
Price to EBITDA multiple *(12 month trailing)*	12.0	8.2	7.8	7.6	6.1	5.2
Return on shareholders' equity *(ROE) (%)*	14.5	16.5	12.6	11.4	12.0	6.1
Total shareholder return, YTD *(%)*	41.2	34.9	27.5	43.9	50.0	-19.8
Total shareholder return, 5 yrs *(%)*	235.2	253.8	121.1	146.7	87.5	38.9
Market capitalization	280,976	203,613	155,821	126,866	93,451	67,385
Share price:						
High	40.50	30.18	22.98	19.29	13.84	13.65
Low	28.38	21.20	17.28	13.02	9.70	8.50
Close	39.60	28.86	22.24	18.30	13.48	9.72

[1] K-Bro's IFRS transition date was January 1, 2010; accordingly 2010 figures have been restated; earlier fiscal periods are presented under Canadian GAAP.

As events have unfolded since entering the public market, our readiness has contributed to our success in dependability and growth.

Management's Discussion and Analysis

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of K-Bro Linen Inc. and the accompanying financial information presented are the responsibility of management of the Corporation and have been approved by its Board of Directors. In management's opinion, the consolidated financial statements have been prepared within reasonable limits of materiality in accordance with International Financial Reporting Standards. The preparation of financial statements necessarily requires judgment and estimation when events affecting the current year depend on determinations to be made in the future. Management has exercised careful judgment where estimates were required, and these consolidated financial statements reflect all information available to March 12, 2014.

To discharge its responsibility for financial reporting, management maintains systems of internal controls designed to provide reasonable assurance that the Corporation's assets are safeguarded, that transactions are properly authorized and that reliable financial information is relevant, accurate and available on a timely basis. The internal control systems are monitored and evaluated by management, which are regularly reported on to the Audit Committee of the Board of Directors.

The consolidated financial statements have been examined by PricewaterhouseCoopers LLP, the Corporation's external auditors. The external auditors are responsible for examining the consolidated financial statements and expressing their opinion on the fairness of the consolidated financial statements in accordance with International Financial Reporting Standards. The auditors' report outlines the scope of their audit examination and states their opinion. The Board of Directors, through the Audit Committee, is responsible for oversight of management's fulfilment of its responsibilities for financial reporting and internal controls. The Audit Committee, which is comprised solely of independent directors, meets regularly with management and the external auditors to satisfy itself that each group is discharging its responsibilities with respect to internal controls and financial reporting. The Audit Committee reviews the consolidated financial statements and recommends their approval to the Board of Directors. The external auditors have full and open access to the Audit Committee, with and without the presence of management. The Audit Committee also recommends to the Board of Directors for nomination, the firm of external auditors, and such nomination on approval of the Board of Directors shall be confirmed annually by the shareholders of the Corporation.

On behalf of management,

Christopher Burrows
Vice-President and Chief Financial Officer

The Board of Directors, through the Audit Committee, is responsible for oversight of management's fulfilment of its responsibilities for financial reporting and internal controls.

dependable.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis ("MD&A") is supplemental to, and should be read in conjunction with, the audited Consolidated Financial Statements of K-Bro Linen Inc. ("the Corporation") for the years ended December 31, 2013 and 2012, as well as the unaudited interim condensed Consolidated Financial Statements for the periods ended March 31, 2013, June 30, 2013 and September 30, 2013. The Corporation and its wholly-owned subsidiaries, including K-Bro Linen Systems Inc., are collectively referred to as "K-Bro" in this MD&A.

Management is responsible for the information contained in this MD&A and its consistency with information presented to the Audit Committee and Board of Directors. All information in this document has been reviewed and approved by the Audit Committee and Board of Directors. This review was performed by management with information available as of March 12, 2014.

In the interest of providing current Shareholders of K-Bro Linen Inc. and potential investors with information regarding current results and future prospects, our public communications often include written or verbal forward-looking statements. Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions and courses of action, and include future-oriented financial information.

This MD&A contains forward-looking information that represents internal expectations, estimates or beliefs concerning, among other things, future activities or future operating results and various components thereof. The use of any of the words "anticipate", "continue", "expect", "may", "will", "project", "should", "believe", and similar expressions suggesting future outcomes or events are intended to identify forward-looking information. Statements regarding such forward-looking information reflect management's current beliefs and are based on information currently available to management.

These statements are not guarantees of future performance and are based on management's estimates and assumptions that are subject to risks and uncertainties, which could cause K-Bro's actual performance and financial results in future periods to differ materially from the forward-looking information contained in this MD&A. These risks and uncertainties include, among other things: (i) risks associated with acquisitions, including the possibility of undisclosed material liabilities; (ii) K-Bro's competitive environment; (iii) utility and labour costs; (iv) K-Bro's dependence on long-term contracts with the associated renewal risk; (v) increased capital expenditure requirements; (vi) reliance on key personnel; (vii) changing trends in government outsourcing; and (viii) the availability of future financing. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information include: (i) volumes and pricing assumptions; (ii) expected impact of labour cost initiatives; and (iii) the level of capital expenditures. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements regarding forward-looking information included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A.

All forward-looking information in this MD&A is qualified by these cautionary statements. Forward-looking information in this MD&A is presented only as of the date made. Except as required by law, K-Bro does not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

This MD&A also makes reference to certain measures in this document that do not have any standardized meaning as prescribed by IFRS and, therefore, are considered additional GAAP measures. These measures may not be comparable to similar measures presented by other issuers. Please see "*Terminology*" for further discussion.

In order to be successful, a company must have a vision. We continue to be committed to remaining as Canada's leading linen processing company.

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INTRODUCTION

Core Business

K-Bro is the largest owner and operator of laundry and linen processing facilities in Canada. K-Bro provides a comprehensive range of general linen and operating room linen processing, management and distribution services to healthcare institutions, hotels and other commercial accounts. K-Bro currently has eight processing facilities in seven Canadian cities including Victoria, Vancouver, Calgary, Edmonton, Toronto, Montréal and Québec City.

Industry and Market

K-Bro provides laundry and linen services to Canadian healthcare, hospitality and other commercial customers. Typical services offered by K-Bro include the processing, management and distribution of general and operating room linens, including sheets, blankets, towels, surgical gowns and drapes and other linen. Other types of processors in K-Bro's industry in Canada include independent privately owned facilities (i.e. typically small, single facility companies), public sector central laundries and public and private sector on-premise laundries (known as "OPLs"). Participants in other sectors of the laundry and linen services industry, such as uniform rental companies (which own and launder uniforms worn by their customers' employees) and facilities management companies (which manage public sector central laundries and OPLs), typically do not offer services that significantly overlap with those offered by K-Bro.

Our partnerships with healthcare institutions and hospitality clients across Canada demonstrate K-Bro's commitment to build relationships that foster continuous improvement, provide flexibility to adjust to changing circumstances as required and which incorporate incentives, penalties and sharing of risks and rewards as circumstances warrant. As a result, clients across the country have entered into long-term relationships with us, with most having renewed their contracts several times.

In this competitive industry, K-Bro is distinctive in Canada in its ability to deliver products and services that provide value to our customers. Management believes that the healthcare and hospitality sectors of the laundry and linen services industry represent a stable base of annual recurring business with opportunities for growth as additional healthcare beds and funds are made available to meet the needs of an aging demographic.

Industry Characteristics and Trends

Management believes that the industry in which K-Bro operates exhibits the following characteristics and trends:

Stable Industry with Moderate Cyclicality – As evidenced by the stability in the number of approved hospital beds in the healthcare system and hotel rooms in the hospitality industry. The potential for step-changes in volumes and revenues that align with contractual arrangements exists within this industry. Service relationships are generally formalized through contracts in the healthcare sector that are typically long term (from seven to ten years), while contracts in the hospitality sector usually range from two to five years.

Outsourcing and Privatization – Healthcare institutions and regional authorities are facing funding pressures and must continually evaluate the allocation of scarce resources. Consequently there are often advantages to healthcare institutions in outsourcing the processing of healthcare linen to private sector laundry companies such as K-Bro because of the economies of scale and significant management expertise that can be provided on a more comprehensive and cost-effective basis than customers can achieve in operating their own laundry facilities.

Fragmentation – Most Canadian cities have at least one and sometimes several private sector competitors operating in the healthcare and hospitality sectors of the laundry and linen services industry. Management believes that the presence of these operators provides consolidation opportunities for larger industry participants with the financial means to complete acquisitions.

Customers and Product Mix

K-Bro's customers include some of the largest healthcare institutions and hospitality providers in Canada. Healthcare customers include acute care hospitals and long-term care facilities. Most of K-Bro's hospitality customers (typically >250 rooms) generate between 500,000 and 3 million pounds of linen per year. Most healthcare customers generate between 500,000 pounds of linen per year for a hospital and up to 30 million pounds of linen per year for a healthcare region.

STRATEGY

K-Bro maintains the following three-part strategic focus:

Secure and Maintain Long-Term Contracts with Large Healthcare and Hospitality Customers – K-Bro's core service is providing high quality laundry and linen services at competitive prices to large healthcare and hospitality customers under long-term contracts. K-Bro's contracts in the healthcare sector typically range from seven to ten years in length. Contracts in the hospitality sector typically range from two to five years.

STRATEGY (continued)

Extend Core Services To New Markets – Management has demonstrated its ability to successfully expand K-Bro's business into new markets from its established bases. Since 2005, K-Bro has entered four new geographic markets across Canada. These new markets have contributed significantly to K-Bro's growth. Management believes that new outsourcing opportunities will continue to arise in the near to medium term and that K-Bro is well-positioned for continued growth, particularly as healthcare and hospitality institutions continue to increase their focus on core services and confront pressures for capital and cost savings.

Management may in the future expand its core services to new markets either through acquisitions or by establishing new facilities. Its choice of areas for expansion will depend on the availability of suitable acquisition candidates, the volume of healthcare and hospitality linen to be processed and the policies of applicable governments.

Introduce Related Services – In addition to focusing on its core services, the Corporation also attempts to capitalize on attractive business opportunities by introducing closely related services that enable it to provide more complete solutions to K-Bro's healthcare and hospitality customers. These related service offerings include K-Bro Operating Room ("KOR") services and on-site services. For three major hospitals in Toronto, K-Bro performs the sterilization of operating room linen packs.

FOURTH QUARTER OVERVIEW

In the fourth quarter of 2013, revenue was $32.3 million which was 2.2% higher than the $31.6 million generated in the comparative quarter of 2012. This year-over-year increase was due to organic growth from new volume and price increases at existing customers across the plants. EBITDA decreased from $5.8 million in Q4, 2012 to $5.4 million in Q4, 2013, this decrease was predominantly a result of the transition costs and reduced productivity during the transition period to transfer operations in Edmonton, partially offset by organic growth and price increases, and a settlement pertaining to disputed development costs in the amount of $0.6 million.

SELECTED ANNUAL FINANCIAL INFORMATION

($ Thousands, except share and per share amounts)	2013	2012	2011
Revenue	131,202	126,290	116,859
Earnings before income taxes	14,509	15,324	10,888
Net earnings	10,336	11,149	7,928
Net earnings per share:			
Basic	1.47	1.60	1.15
Diluted	1.47	1.59	1.14
Total assets	112,330	94,800	91,425
Long-term debt	19,640	5,818	6,095
Dividends declared to Shareholders	8,142	7,977	7,706
Dividends declared to Shareholders per share	1.15	1.13	1.10
Number of shares outstanding:			
Basic	7,022,699	6,981,432	6,918,955
Diluted	7,054,235	6,993,561	6,980,489

SUMMARY OF 2013 RESULTS AND KEY EVENTS

Financial Growth

K-Bro delivered strong financial results in 2013 driven by the operating results from all eight of its processing plants. Net earnings were $10.3 million or $1.47 per share (basic). Cash flow from operating activities was $19.2 million and distributable cash flow was $18.4 million. Revenue increased in fiscal 2013 to $131.2 million or by 3.9% compared to 2012. This revenue growth in the year is due to increased volumes arising from new clients including the Saskatchewan Health Region contract and organic volume and price growth in the remainder of the plants. EBITDA (see Terminology) decreased in the year to $23.3 million from $24.5 million in 2012, which is a decrease of 4.5%. The EBITDA margin decreased to 17.8% in 2013 compared 19.4% in 2012. Both the EBITDA and EBITDA margin decrease were predominantly a result of the negative impact of the transition to the new Edmonton facility.

3sHealth Contract

On December 12, 2013, K-Bro and 3sHealth completed negotiations and executed a 10-year agreement for the provision of laundry and linen processing services for the Province of Saskatchewan. The agreement encompasses a comprehensive linen supply and service program covering general, operating room and specialty linens. Services under the terms and conditions of this contract are expected to commence in 2015. The agreement is renewable for two additional three year periods at 3sHealth's option. Planning and design activities have commenced for the construction of a new processing facility in Regina, Saskatchewan. Expected costs of construction and commissioning of the facility are expected to be approximately $22 million for a leased facility. The Corporation intends to finance the construction through its revolving credit facilities.

Edmonton Facility Development

During Q4, K-Bro completed construction of the new leased Edmonton facility. Management estimates that the total costs to commission the new facility to be approximately $27.8 million for new efficiency enhancing equipment, leaseholds and conversion costs, with immediate returns anticipated from reduced labour, lower energy consumption and other work-flow improvements. Transition into and start-up of the new facility commenced in Q3 and was completed in Q4. As anticipated, transition costs associated with moving into the new facility were incurred during the quarter and negatively impacted the EBITDA margin.

Effects of Economic Uncertainty

K-Bro believes that it is positioned to withstand market volatility and uncertainty given that:

- Approximately 69.9% of its revenues in the quarter were from large publicly funded healthcare customers which are geographically diversified across multiple provinces;
- At December 31, 2013, K-Bro had unutilized borrowing capacity of $19.7 million or 49.3% of the revolving credit line available; and,
- K-Bro's prudent approach to managing capital has added cash flow and liquidity to the Corporation, thereby improving its ability to withstand the turmoil in the national and global capital markets.

K-Bro is a participant in the temporary foreign worker ("TFW") program in our facilities where genuine labour shortages exist, predominantly within our Alberta plants. During the year, the federal government reviewed the TFW program and proposed various rule changes. These proposed changes include stricter application requirements, the suspension of accelerated labour market opinions and an end to a provision whereby employers could pay wages lower than the prevailing wage to temporary foreign workers. The proposed rule changes have limited applicability to K-Bro and are not expected to have a material effect on the financial results or operations of the Corporation.

Sound governance is a principle that is both understood and embraced by our management team.

KEY PERFORMANCE DRIVERS

K-Bro's key performance drivers focus on growth, profitability, stability and cost containment in order to maintain dividends and maximize Shareholder value. The following outlines our results on a period-to-period comparative basis in each of these areas:

($ Thousands, except percentages)

Category	Indicator	Q4, 2013	Q4, 2012	YTD 2013	YTD 2012
Growth	EBITDA[1] *(%)*	-6.2	26.8	-4.9	21.8
	Revenue *(%)*	2.2	8.3	3.9	8.0
	Distributable cash flow *(%)*	8.1	14.9	-3.5	13.8
Profitability	EBITDA[1]	5,421	5,777	23,317	24,517
	EBITDA margin *(%)*	16.8	18.3	17.8	19.4
	Adjusted EBITDA[2]	5,421	18.3	24,030	19.4
	Adjusted EBITDA margin[2] *(%)*	16.8	18.3	18.3	19.4
	Net earnings	2,117	2,758	10,336	11,149
	Adjusted net earnings[3]	2,117	2,758	10,835	11,149
Stability	Debt to total capitalization[4] *(%)*	21.6	7.9	21.6	7.9
	Unutilized line of credit	19,710	33,782	19,710	33,782
	Payout ratio *(%)*	42.8	45.8	44.2	41.8
	Dividends declared per share	0.288	0.287	1.150	1.133
Cost containment	Wages and benefits *(%)*	46.7	46.1	46.4	46.1
	Utilities *(%)*	6.6	6.9	6.4	6.6
	Expenses included in EBITDA *(%)*	83.2	81.7	82.2	80.6

[1] EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, gain or loss on disposals, financial charges and depreciation and amortization). See *Terminology.*

[2] Adjusted EBITDA is defined as EBITDA (defined above) plus or minus non-recurring, infrequent and/or unusual transactions which did not occur during the preceding two years and are not expected to recur within the next two years. See *Terminology* for a complete description of the adjusted items.

[3] Adjusted net earnings is defined as net earnings plus or minus non-recurring, infrequent and/or unusual transactions net of corporate income taxes which did not occur during the preceding two years and are not expected to recur within the next two years. See *Terminology* for a complete description of the adjusted items.

[4] Debt to total capitalization is defined as total debt divided by total capital. See *Terminology.*

OUTLOOK

K-Bro's focus is on profitable growth in the years to come as we execute our strategy of expanding geographically and adding new services for our customers. K-Bro is committed to building value for our shareholders, our customers and our employees.

K-Bro also has several proposals pending and has entered into discussions with potential new customers. In addition, K-Bro continues to seek potential acquisition candidates. Neither the timing nor the degree of likelihood of success of any of these proposals or acquisitions can be stated with any degree of accuracy.

RESULTS OF OPERATIONS

Quarterly Financial Information

The following table provides certain selected consolidated financial and operating data prepared by K-Bro management for the preceding eight quarters:

($ Thousands, except per share amounts and percentages)	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Healthcare revenue	22,607	21,874	22,124	22,288	22,222	21,418	21,713	21,257
Hospitality revenue	9,737	12,677	10,536	9,359	9,364	11,595	9,813	8,908
Total revenue	32,344	34,551	32,660	31,647	31,586	33,013	31,526	30,165
Expenses including EBITDA	26,923	28,816	26,403	25,743	25,809	26,274	25,122	24,568
EBITDA[1]	5,421	5,735	6,257	5,904	5,777	6,739	6,404	5,597
EBITDA as % of revenue *(%)*	16.8	16.6	19.2	18.7	18.3	20.4	20.3	18.6
Adjusted EBITDA[2]	5,421	6,448	6,257	5,904	5,777	6,739	6,404	5,597
Depreciation and amortization	2,304	1,887	1,940	1,974	1,924	2,283	2,263	2,207
Financial charges	176	169	127	123	(66)	272	67	84
Loss (gain) on disposal of equipment	25	5	78	-	39	1	(10)	129
Earnings before income taxes	2,916	3,674	4,112	3,807	3,880	4,183	4,084	3,177
Income tax expense	799	1,103	1,226	1,045	1,122	1,224	1,121	708
Net earnings	2,117	2,571	2,886	2,762	2,758	2,959	2,963	2,469
Net earnings as a % of revenue *(%)*	6.5	7.4	8.8	8.7	8.7	9.0	9.4	8.2
Basic earnings per share	0.301	0.366	0.411	0.393	0.393	0.422	0.424	0.356
Diluted earnings per share	0.300	0.364	0.410	0.391	0.393	0.420	0.423	0.353
Adjusted net earnings[3]	2,117	3,070	2,886	2,762	2,758	2,959	2,963	2,469
Basic adjusted earnings per share[3]	0.301	0.437	0.411	0.393	0.393	0.422	0.424	0.356
Diluted adjusted earnings per share[3]	0.300	0.435	0.410	0.391	0.393	0.420	0.423	0.353
Total assets	112,330	107,911	104,226	99,452	94,800	94,166	90,505	92,529
Total long-term financial liabilities	25,619	22,515	20,794	10,442	11,023	12,830	11,963	8,795
Funds provided by operations	6,399	5,106	(1,499)	9,180	7,928	6,223	(5)	6,653
Long-term debt	19,640	17,028	15,338	5,162	5,818	7,787	7,113	4,000
Dividends declared per share	0.288	0.288	0.288	0.288	0.287	0.288	0.283	0.275

[1] EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, gain or loss on disposals, financial charges and amortization). See *Terminology*.

[2] Adjusted EBITDA is defined as EBITDA (defined above) plus or minus non-recurring, infrequent and/or unusual transactions which did not occur during the preceding two years and are not expected to recur within the next two years. See *Terminology* for a complete description of the adjusted items.

[3] Adjusted net earnings is defined as net earnings plus or minus non-recurring, infrequent and/or unusual transactions net of corporate income taxes which did not occur during the preceding two years and are not expected to recur within the next two years. See *Terminology* for a complete description of the adjusted items.

Revenue, Earnings and EBITDA

For the year ended December 31, 2013, K-Bro's revenue was $131.2 million, compared to $126.3 million in the prior year. This represents a 3.9% increase in revenue and is due to a combination of organic growth and price increases at existing customers across the plants, offset by price concessions as the result of the new contract with AHS in Edmonton. In 2013 approximately 67.8% of K-Bro's revenue was generated from healthcare institutions compared to 68.6% in 2012.

EBITDA was $23.3 million in 2013, compared to $24.5 million in 2012. This 4.9% decrease was predominantly a result of the negative impact on efficiency and productivity as a result of the transfer of operations in Edmonton and the recognition of expenses for the remaining lease payments and decommissioning costs on the former processing facility. This was partially offset by organic growth and price increases from existing customers, and a settlement pertaining to disputed development costs in the amount of $0.6 million. This decline in EBITDA is consistent with the Company's expectations. The transition to the new facility commenced in Q3, 2013 and concluded in Q4.

Adjusted EBITDA, after normalization for the recognition of the remaining lease payments on the former Edmonton processing facility, was $24.0 million for the year compared to $24.5 million in 2012, or a 2.0% decline. Adjusted net earnings decreased to $10.8 million compared to $11.1 million in the comparative year. During the fourth quarter, the EBITDA and net earnings benefited from the settlement with the Landlord, however, the overall detrimental impact of reduced labour efficiencies and productivity and incremental utilities expenses throughout the 2013 fiscal year more than offset the financial benefit of the settlement.

Net earnings decreased in 2013 to $10.3 million from $11.1 million in 2012. Net earnings as a percentage of revenue decreased to 7.9% compared to 8.8% in 2012. This margin decrease is due to a flow through effect of the decrease in the EBITDA.

Operating Expenses

Wages and benefits increased from $58.2 million in 2012 to $60.9 million in 2013 and increased as a percentage of revenues to 46.4% from 46.1%. Despite the control over labor costs, pressures continue to increase as the economy recovers, employment rates improve and provincially regulated minimum wages increase. Linen expenses increased to $13.8 million from $12.7 million and to 10.5% from 10.0% as a percentage of revenue.

Utility costs slightly decreased from 6.6% in 2012 to 6.4% as a percentage of revenue in 2013. The decrease is as a result of lower market rates in 2013.

Delivery costs have increased to $6.0 million or 4.6% of revenues compared to 4.4% in 2012. The rising cost of diesel fuel has contributed to the increase on a year-over-year basis. Additionally the delivery of linens to Saskatoon Health Region has increased delivery expenses as these services are being performed by the Corporation's Calgary facility. Incremental delivery costs for Saskatoon are offset by additional revenues.

Materials and supplies and repairs and maintenance as a percentage of revenue remained stable in 2013 compared to 2012. During the quarter a $0.3 million charge for estimated decommissioning costs of the former Edmonton facility was recorded to repairs and maintenance expense.

Occupancy costs increased to $4.7 million or 3.6% of revenues compared to $3.9 million and 3.1% in 2012. The increase is mainly attributable to the recognition of a liability and corresponding expense of $0.7 million for the remaining lease payments that relate to decommissioned facilities as well as increased lease costs of the new Edmonton processing plant. In the fourth quarter a settlement pertaining to disputed development costs was reached and a rental credit of $0.6 million was recorded as a reduction of occupancy costs.

Corporate costs increased in 2013 by $0.3 million over the comparative period of 2013 and remained constant as a percentage of revenues at approximately 4.1%. The increase in corporate costs is due increases in legal and consulting fees as well as the long term incentive compensation plan.

Depreciation of property, plant and equipment and amortization of intangible assets represents the expense related to the appropriate matching of certain of K-Bro's long-term assets to the estimated useful life and period of economic benefit of those assets. Depreciation of property, plant and equipment and amortization of intangibles assets has decreased from the comparable period in 2012 primarily due to the full depreciation of assets that related to the previous Edmonton facility, prior to the move to the new Edmonton facility. Depreciation of the newly commissioned facility in Edmonton commenced in November 2013.

Income tax includes current and deferred income taxes based on taxable income and the temporary timing differences between the tax and accounting bases of assets and liabilities. The Corporation's effective tax rate increased to approximately 28.8% of net earnings from 27.2% in 2012. This increase was a result of an increase in the statutory rate from 25.3% to 25.6% as well as an increase in non-deductible expenses.

LIQUIDITY AND CAPITAL RESOURCES

In 2013 cash generated by operating activities was $19.2 million, compared to cash generated by operating activities of $20.8 million in 2012. The change in cash from operations is due to the decrease in earnings offset by smaller changes in other operating accounts.

During 2013, cash generated from financing activities amounted to $5.7 million compared to $8.2 million used in 2012 mainly attributable to the purchase of property, plant and equipment for the new Edmonton facility. Financing activities in 2013 included $13.8 million in net proceeds of long term debt and $8.1 million in dividends paid to Shareholders.

The Corporation used cash of $24.9 million in investing activities during 2013 compared to $12.7 million in 2012. The increase in cash used in investing activities is driven by the purchase of property, plant and equipment primarily for existing operations and the new Edmonton facility.

Contractual Obligations

At December 31, 2013, payments due under contractual obligations for the next five years and thereafter are as follows:

		Payments due by Period			
($ Thousands)	**Total**	<1 Year	1-3 Years	4-5 Years	>5 Years
Long-term debt	19,640	-	19,640	-	-
Operating leases and utility commitments	27,727	4,343	7,426	3,122	12,836
Linen purchase obligations	3,562	3,562	-	-	-
Property, plant and equipment commitments	22,066	4,246	17,820	-	-

Scheduled lease payments for 2014 are expected to be $4.3 million. The operating lease obligations are secured by automotive equipment and are more fully described in the audited annual consolidated financial statements. The source of funds for these commitments will be from operating cash flow and, if necessary, the undrawn portion of the revolving credit facility.

Financial Position

($ Thousands, except percentages)	**December 31, 2013**	December 31, 2012
Long term debt	19,640	5,818
Shareholders' equity	71,116	67,685
Total capitalization	90,756	73,503
Debt to total capitalization (see *Terminology* for definition)	21.6%	7.9%

For the year ended December 31, 2013, the Corporation had a payout ratio (see Terminology) of 44.2%, a debt to total capitalization of 21.6%, an unused revolving credit facility of $19.7 million and has not incurred any events of default under the terms of its credit facility agreement.

As at December 31, 2013, the Corporation had net working capital of $9.4 million compared to its working capital position of $8.1 million at December 31, 2012.

Management believes that K-Bro has the capital resources and liquidity necessary to meet its commitments, support its operations and finance its growth strategies. In addition to K-Bro's ability to generate cash from operations and its revolving credit facility, K-Bro may also be able to access equity financing, depending upon pricing and availability, for capital spending to sustain its property, plant and equipment.

DIVIDENDS

Fiscal Period	Payment Date	# of Shares Outstanding	2013 Amount per Share	2013 Total Amount[2]	2012 Amount Per Unit	2012 Total Amount[1]
January	February 15	7,055,207	0.09580	676	0.09167	642
February	March 15	7,055,207	0.09580	676	0.09167	642
March	April 13	7,055,207	0.09580	676	0.09167	642
Q1			0.28741	2,028	0.27501	1,927
April	May 15	7,055,207	0.09580	676	0.09167	642
May	June 15	7,095,343	0.09580	680	0.09580	676
June	July 13	7,095,343	0.09580	680	0.09580	676
Q2			0.28741	2,036	0.28328	1,994
July	August 15	7,095,343	0.09580	680	0.09580	676
August	September 15	7,095,343	0.09580	680	0.09580	676
September	October 15	7,095,343	0.09580	680	0.09580	676
Q3			0.28741	2,039	0.28741	2,028
October	November 15	7,095,343	0.09580	680	0.09580	676
November	December 14	7,095,343	0.09580	680	0.09580	676
December	January 15	7,095,343	0.09580	680	0.09580	676
Q4			0.28741	2,039	0.28741	2,028
YTD			1.15	8,142	1.13	7,977

[1] The total amount of dividends paid was $0.09167 per share for a total of $642.273 per month for Jan - Apr 2012; when rounded in thousands $1,927 of dividends were paid for the quarterly period.

[2] The total amount of dividends paid was $0.09580 per share for a total of $679,734 per month for May - Dec 2013; when rounded in thousands $2,039 of dividends were paid for each of the quarterly periods, respectively.

For the year ended December 31, 2013, the Corporation distributed $1.15 per share compared with $2.61 per diluted share of Distributable Cash (see Terminology). The actual payout ratio was 44.2%.

The Corporation's policy is to pay dividends to Shareholders from its available distributable cash flow while considering requirements for capital expenditures, working capital, growth capital and other reserves considered advisable by the Directors of the Corporation. All such dividends are discretionary. Dividends are declared payable each month in equal amounts to Shareholders on the last business day of each month and are paid by the 15th of the following month.

The Corporation designates all dividends paid or deemed to be paid as Eligible Dividends for purposes of subsection 89(14) of the Income Tax Act (Canada), and similar provincial and territorial legislation, unless indicated otherwise.

DISTRIBUTABLE CASH FLOW *(See Terminology)*

The Corporation's source of cash for dividends is distributable cash flow provided by operating activities. Distributable cash flow, reconciled to cash provided by operating activities as calculated under IFRS, is presented as follows:

($ Thousands, except per share amounts and percentages)	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash provided by operating activities	6,399	5,106	(1,499)	9,180	7,928	6,223	(5)	6,653
Deduct (add):								
Net changes in non-cash working capital items[1]	1,201	332	(6,956)	4,049	2,866	598	(5,544)	1,659
Share-based compensation expense[2]	261	279	377	320	176	177	250	502
Maintenance capital expenditures[3]	180	293	240	173	486	168	232	134
Distributable cash flow	4,757	4,202	4,840	4,638	4,400	5,280	5,067	4,358
Distributable cash flow per weighted average diluted shares outstanding	0.673	0.596	0.688	0.657	0.624	0.750	0.719	0.622
Dividends declared	2,039	2,039	2,036	2,028	2,028	2,028	1,994	1,927
Dividends declared per share	0.288	0.288	0.288	0.288	0.287	0.288	0.283	0.275
Payout ratio[4] *(%)*	42.8	48.4	41.9	43.9	46.1	38.3	39.2	44.2
Weighted average shares outstanding during the period, basic	7,031	7,031	7,020	7,019	7,007	7,007	6,979	6,932
Weighted average shares outstanding during the period, diluted	7,065	7,055	7,038	7,054	7,019	7,040	7,009	7,003
TRAILING-TWELVE MONTHS ("TTM")								
Distributable cash flow	18,437	18,080	19,158	19,358	19,105	18,535	18,535	17,358
Dividends	8,142	8,131	8,120	8,077	7,977	7,876	7,774	7,706
Payout ratio[4] *(%)*	44.2	45.0	42.5	41.7	41.8	42.5	41.9	44.4

[1] Net changes in non-cash working capital is excluded from the calculation as management believes it would introduce significant cash flow variability and affect underlying cash flow from operating activities. Significant variability can be caused by such things as the timing of receipts (which individually are large because of the nature of K-Bro's customer base and timing may vary due to the timing of customer approval, vacations of customer personnel, etc.) and the timing of disbursements (such as the payment of large volume rebates done once annually). As well, large increases in working capital are generally required when contracts with new customers are signed as linen is purchased and accounts receivable increase. Management feels that this amount should be excluded from the distributable cash flow calculation.

[2] Share-based compensation expenses have historically been excluded from the calculation of distributable cash flow. Previously the share-based compensation was recorded as part of the net changes in non-cash working capital items, however the amount has been disclosed separately commencing in Q4, 2012. The comparative figures for the quarterly periods as presented have been restated to reflect this revised presentation.

[3] Maintenance capital expenditures costs required to maintain or replace assets which do not have a discreet return on investment.

[4] The ratio of dividends paid compared to distributable cash flow is periodically reviewed by the Board of Directors to take into account the current and prospective performance of the business and other items considered to be prudent. Payout ratio is calculated on the dividends declared per share divided by the distributable cash flow per weighted average diluted shares outstanding.

OUTSTANDING SHARES

At December 31, 2013, the Corporation had 7,095,343 common shares outstanding. Basic and diluted weighted average number of common shares outstanding for 2013 were 7,022,699 and 7,054,235 respectively, (6,981,432 and 6,993,561, respectively for the comparative 2012 periods).

In accordance with the LTI plan and in conjunction with the performance of the Corporation in the 2012 fiscal year, on April 24, 2013 the Compensation, Nominating and Corporate Governance Committee of the Board of Directors approved LTI compensation of $1.5 million (2012 – $1.2 million) to be paid as shares issued from treasury. As at December 31, 2013, the market value of the shares held in trust by the LTI trustee was $2.5 million (December 31, 2012 – $1.4 million) which was comprised of 63,604 in unvested common shares (December 31, 2012 – 48,191) with a nil aggregate cost (December 31, 2012 – $0.3 million).

As at March 12, 2014, there were 7,095,343 common shares issued and outstanding.

RELATED PARTY TRANSACTIONS

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by Mr. Matthew Hills, a director of the Corporation, primarily relating to acquisitions. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms. For the year ended December 31, 2013, the Corporation incurred fees totaling $138,000 (2012 – $138,000).

CRITICAL ACCOUNTING ESTIMATES

The Corporation's summary of significant accounting policies are contained in note 2 to the audited consolidated financial statements.

The Corporation's financial statements include estimates and assumptions made by management in respect of operating results, financial conditions, contingencies, commitments, and related disclosures. Actual results may vary from these estimates. The following are, in the opinion of management, the Corporation's most critical accounting estimates, being those that involve the most difficult, subjective and complex judgments, and/or requiring estimates that are inherently uncertain and which may change in subsequent reporting periods.

K-Bro has continuously refined and documented its management and internal reporting systems to ensure that accurate, timely, internal and external information is gathered and disseminated. Management also regularly evaluates these estimates and assumptions which are based on past experience and other factors that are deemed reasonable under the circumstances.

K-Bro has hired individuals and consultants who have the skills required to make such estimates and ensures that individuals or departments with the most knowledge of the activity are responsible for the estimates. Furthermore, past estimates are reviewed and compared to actual results, and actual results are compared to budgets in order to make more informed decisions on future estimates.

K-Bro's leadership team's mandate includes ongoing development of procedures, standards and systems to allow K-Bro staff to make the best decisions possible and ensuring those decisions are in compliance with the Corporation's policies.

Preparation of the Corporation's consolidated financial statements requires management to make estimates and assumptions that affect:

- volume rebates;
- linen in service;
- intangible assets;
- goodwill;
- income taxes;
- provisions; and,
- allowance for doubtful accounts.

Volume Rebates

The Corporation earns revenue from linen management and laundry services based on written service agreements whereby K-Bro has agreed to collect, launder, deliver and replenish linens. K-Bro recognizes revenue in the period in which the services are provided. Volume rebates, where applicable, are recorded based on annualized expected volumes when it is reasonable that the criteria are likely to be met. Based on past experience, management believes that volumes utilized for any estimates are reasonable and would not expect a material deviation to the balance of accrued liabilities or revenue.

Linen in Service

Linen in service is recorded at cost. Operating room linen is amortized on a straight-line method over an estimated service life of 24 months. General linen is amortized based on usage which results in an estimated service life of the linen equal to 24 months. Based on past experience, management believes that a service life of 24 months is representative of the average service life of linen and would not expect a material deviation to the balance of linen in service or linen expense.

Intangible Assets

The Corporation accounts for intangible assets and goodwill in accordance with IFRS 3, Business Combinations and IAS 38, Intangible Assets. In a business combination, K-Bro may acquire the assets and assume certain liabilities of an acquired entity. The allocation of the purchase price for these transactions involves judgment in determining the fair values assigned to the tangible and intangible assets acquired and the liabilities assumed on the acquisition. The determination of these fair values involves a variety of assumptions, including revenue growth rates, expected operating income, discount rates, and earnings multiples. If K-Bro's estimates or assumptions change prior to finalizing the purchase price allocation for a transaction, a revision to the purchase price allocation or the carrying value of the related assets and liabilities acquired may impact our net income in future periods.

The Corporation early adopted the amendment to IAS 36 that removed the requirement to disclose the recoverable amount of CGU's with significant carrying amounts of goodwill.

At the date of the acquisition, K-Bro must estimate the value of acquired intangible assets that do not have a well defined market value, such as the value of customer lists and relationships and non-competition agreements.

Valuing these assets involves estimates of the future net benefit to K-Bro and the useful life of such benefits and is based upon various internal and external factors. A change in those estimates could cause a material change to the value of the intangible assets.

Although intangible assets are amortized over their useful life, if the estimated value of an intangible asset has declined below its amortized book value, a write-down would be recorded in the period in which the event causing the decline in value occurred, which would increase amortization expense and decrease the intangible assets balance. At this time, K-Bro does not believe any intangible assets have a book value in excess of their fair market value.

TERMINOLOGY

Additional GAAP Measures
EBITDA

We report on our EBITDA (Earnings before interest, taxes, depreciation and amortization) because it is a key measure used by management to evaluate performance. EBITDA is utilized in measuring compliance with debt covenants and in making decisions relating to dividends to Shareholders. We believe EBITDA assists investors in assessing our performance on a consistent basis as it is an indication of our capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible and intangible capital assets, which vary according to their vintage, technological currency and management's estimate of their useful life. Accordingly, EBITDA comprises revenues less operating costs before: financing costs, capital asset and intangible asset amortization, loss on disposal and impairment charges, and income taxes.

EBITDA is not a calculation based on IFRS and is not considered an alternative to net earnings in measuring K-Bro's performance. EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other issuers. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, capital expenditures, debt changes and other sources and uses of cash, which are disclosed in the consolidated statements of cash flows.

	Three Months Ended December 31		Year Ended December 31	
($ Thousands)	2013	2012	2013	2012
Net earnings	2,117	2,758	10,336	11,149
Add:				
Income tax expense	799	1,122	4,173	4,175
Interest expense and financial charges, net	176	(66)	595	357
Depreciation of property, plant and equipment	1,774	1,617	5,965	6,350
Amortization of intangible assets	530	307	2,140	2,327
Loss on disposal of property, plant and equipment	25	39	108	159
EBITDA	5,421	5,777	23,317	24,517

Non-GAAP Measures
Adjusted EBITDA

Adjusted EBITDA is a measure which has been reported in order to assist in the comparison of historical EBITDA to current results. The calculation of Adjusted EBITDA normalizes the impact of non-recurring infrequent and/or unusual transactions which did not occur during the preceding two years and are not expected to recur within the next two years, and the related impact on EBITDA (as defined above). During the third quarter ended September 30, 2013, a charge equivalent to the remaining lease payments for decommissioned facilities was recognized as occupancy costs. The normalization of this expense from the calculation of EBITDA is considered by Management to be a more accurate representation of continuing operations.

($ Thousands)	Three Months Ended December 31 2013	2012	Year Ended December 31 2013	2012
EBITDA	5,421	5,777	23,317	24,517
Add:				
Occupancy expanse of decommisioned facilities	-	-	713	-
Adjusted EBITDA	5,421	5,777	24,030	24,517

Adjusted Net Earnings and Adjusted Net Earnings per Share

Adjusted net earnings and adjusted net earnings per share are measures which have been reported in order to assist in the comparison of historical net earnings to current results. The calculation of Adjusted net earnings normalizes the impact of non-recurring infrequent and/or unusual transactions net of corporate income taxes which did not occur during the preceding two years and are not expected to recur within the next two years, and the related impact on net earnings and net earnings per share. The normalization of this net expense in the calculation of adjusted net earnings and adjusted net earnings per share is considered by management to be a more accurate representation of the net earnings from continuing operations.

($ Thousands)	Three Months Ended December 31 2013	2012	Year Ended December 31 2013	2012
Net earnings	2,117	2,758	10,336	11,149
Add/(deduct), net of corporate income taxes:				
Occupancy expanse of decommisioned facilities	-	-	499	-
Adjusted net earnings	2,117	2,758	10,835	11,149
Adjusted net earnings, per share:				
Basic	0.30	0.39	1.54	1.60
Diluted	0.30	0.39	1.54	1.59

Distributable Cash Flow

Distributable cash flow is a measure used by management to evaluate its performance. While the closest IFRS measure is cash provided by operating activities, distributable cash flow is considered relevant because it provides an indication of how much cash generated by operations is available after capital expenditures. It shall be noted that although we consider this measure to be distributable cash flow, financial and non-financial covenants in our credit facilities and dealer agreements may restrict cash from being available for dividends, re-investment in the Corporation, potential acquisitions, or other purposes. Investors should be cautioned that distributable cash flow may not actually be available for growth or distribution from the Corporation. References to “Distributable cash flow” are to cash provided by (used in) operating activities (including the net change in non-cash working capital balances) less capital expenditures.

Payout Ratio

Payout ratio is defined by management as the actual cash dividend divided by distributable cash. This is a key measure used by investors to value K-Bro, assess its performance and provide an indication of the sustainability of dividends. The payout ratio depends on the distributable cash and the Corporation’s dividend policy.

Debt to Total Capitalization

Debt to total capitalization is defined by management as the total long-term debt divided by the Corporation’s total shareholder’s equity. This is a measure used by investors to assess the Corporation’s financial structure.

Distributable Cash Flow, Payout Ratio, Debt to Total Capitalization, Adjusted EBITDA, Adjusted net earnings, and Adjusted net earnings per share are not calculations based on IFRS and are not considered an alternative to IFRS measures in measuring K-Bro’s performance. Distributable Cash Flow, Payout Ratio, Adjusted EBITDA, Adjusted net earnings, and Adjusted net earnings per share do not have standardized meanings in IFRS and are therefore not likely to be comparable with similar measures used by other issuers.

Off Balance Sheet Arrangements

As at December 31, 2013, the Corporation has not entered into any off balance sheet arrangements.

CHANGES IN ACCOUNTING POLICIES

The Corporation has prepared its December 31, 2013 audited Consolidated Financial Statements in accordance with IFRS. See note 2 of the Corporation's audited Consolidated Financial Statements for more information regarding the significant accounting principles used to prepare the audited Consolidated Financial Statements.

The Corporation has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

- IFRS 10, Consolidated Financial Statements, replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation - Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. The Corporation assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

- IFRS 12, Disclosures of interests in other entities includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

- IFRS 13, Fair value measurement, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the assets or liability under current market conditions, including assumptions about risk. The Corporation adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS did not require any adjustments to valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

- IAS 36, Amendment, Impairment of Assets, removes the requirement to disclose the recoverable amount of CGU's with significant carrying amounts of goodwill. The Corporation has early adopted this amendment on January 1, 2013.

RECENT ACCOUNTING PRONOUNCEMENTS

There are no changes in accounting standards applicable to future periods that are relevant and significant to the Corporation other than as disclosed in the most recent audited Consolidated Financial Statements as at and for the year ended December 31, 2013.

FINANCIAL INSTRUMENTS

K-Bro's financial instruments at December 31, 2013 consist of accounts receivable, accounts payable and accrued liabilities and long-term debt. The Corporation does not enter into financial instruments for trading or speculative purposes. Financial assets are either classified as available for sale, held to maturity, trading or loans and receivables. Financial liabilities are recorded at amortized cost. Initially, all financial assets and financial liabilities must be recorded on the balance sheet at fair value. Subsequent measurement is determined by the classification of each financial asset and liability. Unrealized gains and losses on financial assets that are held as available for sale are recorded in other comprehensive income until realized, at which time they are recorded in the consolidated statement of earnings. All derivatives, including embedded derivatives that must be separately accounted for, are recorded at fair value in the consolidated balance sheet. Transaction costs related to financial instruments are capitalized and then amortized over the expected life of the financial instrument using the effective interest method.

Derivative financial instruments are utilized by K-Bro to manage cashflow risk against the volatility in interest rates on its long-term debt and foreign exchange rates on its equipment purchase commitments. K-Bro typically does not utilize derivative financial instruments for trading or speculative purposes. K-Bro has floating interest rate debt that gives rise to risks that its earnings and cash flows may be adversely impacted by fluctuations in interest rates. In order to manage these risks, K-Bro may enter into interest rate swaps, forward contracts on foreign currency, utilities and textiles or option contracts.

CRITICAL RISKS AND UNCERTAINTIES

As at December 31, 2013, there are no material changes in the Corporation's risks or risk management activities since December 31, 2012. The Corporation's results of operations, business prospects, financial condition, cash dividends to Shareholders and the trading price of the Corporation's Shares are subject to a number of risks. These risk factors include: dependence on long-term contracts and the associated renewal risk thereof; the effects of market volatility and uncertainty; potential future tax changes; the competitive environment; our ability to acquire and successfully integrate and operate additional businesses; utility costs; the labour markets; the fact that our credit facility imposes numerous covenants and encumbers assets; and, environmental matters.

For a discussion of these risks and other risks associated with an investment in Corporation Shares, see *Risk Factors – Risks Related to K-Bro and the Laundry and Linen Industry* detailed in the Corporation's Annual Information Form that is available at **www.sedar.com**.

CONTROLS AND PROCEDURES

In order to ensure that information with regard to reports filed or submitted under securities legislation present fairly in all material respects the financial information of K-Bro, management, including the President and Chief Executive Officer ("CEO") and the Vice-President and Chief Financial Officer ("CFO"), are responsible for establishing and maintaining disclosure controls and procedures, as well as internal control over financial reporting.

Disclosure Controls and Procedures

The Corporation has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements of K-Bro was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Corporation's CEO and CFO have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2013, and the CEO and CFO have concluded that these controls were operating effectively.

Internal Controls over Financial Reporting

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR"). Consequently the CEO and CFO confirm that the additions to these controls that occurred during the year ended December 31, 2013 did not materially affect, or are reasonably likely to materially affect, the Corporation's ICFR. Based upon their evaluation of these controls for the year ended December 31, 2013, the CEO and CFO have concluded that these controls were operating effectively.

A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instance of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that managements' assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or, (ii) the impact of isolated errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

Consolidated Financial Statements

INDEPENDENT AUDITOR'S REPORT

March 12, 2014
Independent Auditor's Report

To the Shareholders of K-Bro Linen Inc.

We have audited the accompanying consolidated financial statements of K-Bro Linen Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of K-Bro Linen Inc. and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Edmonton, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ Thousands of Canadian dollars)	December 31 2013	December 31 2012
ASSETS		
Current assets		
Accounts receivable	15,465	14,197
Linen in service *(note 6)*	8,647	8,888
Prepaid expenses and deposits	917	1,071
	25,029	24,156
Property, plant and equipment *(note 7)*	57,972	39,175
Intangible assets *(note 8)*	8,873	11,013
Goodwill *(note 9)*	20,456	20,456
	112,330	94,800
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities *(note 10 and 11)*	14,824	13,001
Income taxes payable	91	2,415
Dividends payable to shareholders	680	676
	15,595	16,092
Long-term debt *(note 12)*	19,640	5,818
Unamortized lease inducements *(note 14)*	947	415
Deferred income taxes *(note 15)*	5,032	4,790
	41,214	27,115
SHAREHOLDERS' EQUITY		
Share capital *(note 17)*	72,158	71,444
Contributed surplus	1,732	1,209
Deficit	(2,774)	(4,968)
	71,116	67,685
Contingencies and commitments *(note 16)*	112,330	94,800

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

Approved on behalf of the Corporation

Ross S. Smith
Chair

Matthew B. Hills
Director

CONSOLIDATED STATEMENTS OF EARNINGS & COMPREHENSIVE INCOME

($ Thousands of Canadian dollars, except share and per share amounts)	Year ended December 31	
	2013	2012
Revenue	131,202	126,290
Expenses		
Wages and benefits	60,858	58,248
Linen *(note 6)*	13,781	12,706
Utilities	8,400	8,276
Delivery	5,979	5,583
Materials and supplies	4,337	4,058
Occupancy costs *(note 10)*	4,703	3,896
Repairs and maintenance	4,398	3,832
Corporate	5,429	5,174
	107,885	101,773
EBITDA *(note 23)*	23,317	24,517
Other expenses		
Depreciation of property, plant and equipment *(note 7)*	5,965	6,350
Amortization of intangible assets *(note 8)*	2,140	2,327
Financial charges *(note 13)*	595	357
Loss on disposal of property, plant and equipment	108	159
	8,808	9,193
Earnings before income taxes	14,509	15,324
Current income tax expense	3,931	3,981
Deferred income tax expense	242	194
Income tax expense *(note 15)*	4,173	4,175
Net earnings and Comprehensive income	10,336	11,149
Net earnings per share *(note 18)*		
Basic	1.47	1.60
Diluted	1.47	1.59
Weighted average number of shares outstanding *(note 17)*		
Basic	7,022,699	6,981,432
Diluted	7,054,235	6,993,561

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

($ Thousands of Canadian dollars)	Total Share Capital	Contributed surplus	Deficit	Total equity
As at December 31, 2012	71,444	1,209	(4,968)	67,685
Net earnings	-	-	10,336	10,336
Dividends declared *(note 20)*	-	-	(8,142)	(8,142)
Employee share based compensation expense	-	1,237	-	1,237
Shares vested during the year	714	(714)	-	-
As at December 31, 2013	72,158	1,732	(2,774)	71,116
As at December 31, 2011	69,493	1,580	(8,140)	62,933
Net earnings	-	-	11,149	11,149
Dividends declared *(note 20)*	-	-	(7,977)	(7,977)
Employee share based compensation expense	-	1,105	-	1,105
Settlement of former LTI plan	-	475	-	475
Shares vested during the year	1,951	(1,951)	-	-
As at December 31, 2012	71,444	1,209	(4,968)	67,685

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

CONSOLIDATED STATEMENTS OF CASH FLOW

($ Thousands of Canadian dollars)	Year ended December 31 2013	2012
OPERATING ACTIVITIES		
Net earnings	10,336	11,149
Depreciation of property, plant and equipment *(note 7)*	5,965	6,350
Amortization of intangible assets *(note 8)*	2,140	2,327
Lease inducements, net of amortization	532	(54)
Share-based compensation expense	1,237	1,105
Loss on disposal of property, plant and equipment	108	159
Deferred income taxes	242	194
	20,560	21,230
Change in non-cash balances relating to operations *(note 21)*	(1,374)	(421)
Cash provided by operating activities	19,186	20,809
FINANCING ACTIVITIES		
Net proceeds (repayments of) from revolving credit facility	13,822	(277)
Dividends paid to shareholders *(note 20)*	(8,138)	(7,943)
Cash used in financing activities	5,684	(8,220)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment *(note 7)*	(24,914)	(12,650)
Proceeds from disposal of property, plant and equipment	44	61
Cash used in investing activities	(24,870)	(12,589)
Change in cash during the year	-	-
Cash, beginning of year	-	-
Cash, end of year	-	-
Supplementary cash flow information		
Interest paid	462	143
Income taxes	6,255	3,423

The accompanying notes are an integral part of these 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 audited annual consolidated financial statements (the "consolidated financial statements") were approved and authorized for issuance by the Board of Directors ("the Board") on March 12, 2014.

1 Basis of Presentation

The consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") and Canadian Generally Accepted Accounting Principles ("GAAP") as issued by CPA Canada. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in Note 5.

2 Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

a) Basis of Measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments.

b) Principles of Consolidation

The consolidated financial statements include the Corporation, its wholly owned subsidiaries and the long-term incentive plan trust, a structured entity (notes 2(q) (ii) and (iii)). All intercompany balances and transactions have been eliminated upon consolidation.

c) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less.

Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value.

d) Linen in Service

Linen in service is stated at cost less accumulated depreciation. The cost is based on the expenditures that are directly attributable to the acquisition of linen, with operating room linen amortized across its estimated service life of 24 months and general linen amortized based on usage which results in an estimated average service life of 24 months.

e) Revenue Recognition

Revenue from linen management and laundry services is primarily based on written service agreements whereby the Corporation agrees to collect, launder, deliver and replenish linens. The Corporation recognizes revenue in the period in which the services are provided.

f) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be reliably measured. The carrying amount of a replaced part is derecognized. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

2 Significant accounting policies (continued)

g) Impairment of Financial Assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss equal to the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

h) Impairment of Non-Financial Assets

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating unit or "CGU"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The Corporation evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

The major categories of property, plant and equipment are depreciated on a straight-line basis as follows:

Asset	Rate
Buildings	15-25 years
Laundry equipment	7-20 years
Office equipment	2-5 years
Delivery equipment	5 years
Computer equipment	2 years
Leasehold improvements	Lease term

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of earnings and comprehensive income.

i) Intangible Assets

Intangible assets are recorded at cost and include customer contracts in progress and related relationships, which are being amortized using the straight-line method over the remaining lives of the related contracts and relationships. Intangible assets which relate to computer software are amortized using the straight-line method over five years when put into service. These estimates are reviewed at least annually and are updated if expectations change as a result of changing client relationships or technological obsolescence.

j) Income Taxes

The tax expense for the year comprises current and deferred tax. Tax is recognized in statement of earnings, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax provision is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date of the taxation authority where the Corporation operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

k) Business Combinations

Business combinations are accounted for using the acquisition method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred.

l) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their estimated fair values at the acquisition date. Goodwill is allocated as of the date of the business combination. Goodwill is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate a potential impairment.

Goodwill acquired through a business combination is allocated to each CGU, or group of CGUs, that are expected to benefit from the related business combination. A CGU represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

m) Volume Rebates

Certain customers receive a rebate based on specified annual processing volumes. A rebate liability is recorded in the period it is expected that the customer will meet the specified annual volume levels.

n) Earnings Per Share

Basic earnings per share ("EPS") is calculated by dividing net earnings for the period attributable to Shareholders of the Corporation by the weighted average number of Common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of common shares included within the weighted average is computed using the treasury stock method. The Corporation's potentially dilutive Common shares are comprised of long-term incentive plan equity compensation granted to officers and key employees (notes 2(q) (ii) and (iii)).

o) Foreign Currency Translation

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of earnings within "financial charges".

p) Lease Inducements

Tenant allowances and lease inducements are deferred when credited or received and amortized on a straight-line basis as a reduction of rent expense over the term of the related lease. For lease contracts with escalating lease payments, total rent expense for the lease term is expensed on a straight-line basis over the lease term. The difference between rent expensed and amounts paid is recorded as an increase or deferral in unamortized lease inducements.

q) Employee Benefits

i) Post-employment benefit obligations
The Corporation contributes on behalf of its employees to their individual Registered Retirement Savings Plans subject to an annual maximum of 4% of gross personal earnings. The Corporation accounts for contributions as an expense in the period that they are incurred. The Corporation does not provide any other post-employment or post-retirement benefits.

ii) Former equity-based compensation plan
The officers and key employees were eligible to participate in a past long-term incentive plan (“LTIP”), which involved equity-settled share-based payments. The Corporation set aside funds each year based on the amount by which distributable cash flow exceeded a base distributable amount for the fiscal year.

The LTIP trustee purchased common shares in the open market and held such common shares until ownership vests to each participant. Subject to the Board’s discretion to accelerate vesting, one-quarter of the LTIP grant vested thirty days following the date that the Trustees of the Fund approved the audited Consolidated Financial Statements (the “Determination Date”). The remaining three-quarters vested on the second anniversary of the Determination Date. In most circumstances, unvested grant amounts held by the trustee for an LTIP participant are forfeited if the participant resigns or is terminated for cause prior to the applicable vesting date, and any equity will be sold and the proceeds returned to the Corporation.

As of May 1, 2011 no additional compensation will be issued under this LTIP. Any unvested compensation granted under the terms of this plan will vest under the original terms and conditions of issue. All remaining compensation under this LTIP vested during the year ending December 31, 2013.

iii) Existing equity-based compensation plan of the Corporation
On June 16, 2011, the Shareholders of the Corporation approved a new Long-term Incentive Plan (“LTI”). Under the LTI, awards are granted annually in respect of the prior fiscal year to the eligible participants based on a percentage of annual salary. The amount of the award (net of withholding obligations) is satisfied by issuing treasury shares to be held in trust by the trustee pursuant to the terms of the LTI. All awards issued under the provisions of the LTI are recorded as compensation expense.

Subject to the discretion of the Compensation, Nominating and Corporate Governance Committee of the Board of Directors, one-quarter of a Participant’s grant will vest on the Determination Date (defined as the first May 15th following the date that the Directors of the Corporation approve the audited consolidated financial statements of the Corporation for the prior year). The remaining three-quarters of the Participant’s grant will vest on November 30th following the second anniversary of the Determination Date.

If a change of control occurs, all LTI Shares held by the Trustee in respect of unvested grants will vest immediately. LTI participants are entitled to receive dividends on all common shares granted under the LTI whether vested or unvested. In most circumstances, unvested common shares held by the LTI trustee for a participant will be forfeited if the participant resigns or is terminated for cause prior to the applicable vesting date, and those common shares will be disposed of by the trustee to K-Bro for no consideration and such Common shares shall thereupon be cancelled. If a participant is terminated without cause, retires or resigns on a basis which constitutes constructive dismissal, the participant will be entitled to receive his or her unvested common shares on the regular vesting schedule under the LTI.

r) Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition. Transaction costs are recognized immediately in income or are capitalized, depending upon the nature of the transaction and the associated instrument.

Loans, receivables and other liabilities
Loans, receivables and other liabilities are accounted for at amortized cost using the effective interest method.

The Corporation has made the following classifications:

	Classification	Measurement
FINANCIAL ASSETS		
Cash and Cash Equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

3 Significant accounting policies adopted January 1, 2013

The Corporation has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions:

- IFRS 10, Consolidated Financial Statements, replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation - Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. The Corporation assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries or investees.

- IFRS 12, Disclosures of interests in other entities includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

- IFRS 13, Fair value measurement, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the assets or liability under current market conditions, including assumptions about risk. The Corporation adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

- IAS 36, Amendment, Impairment of Assets, removes the requirement to disclose the recoverable amount of CGU's with significant carrying amounts of goodwill. The Corporation has early adopted this amendment on January 1, 2013.

4 New Standards and interpretations not yet adopted

The following accounting standard has been issued but has not been applied in preparing these consolidated financial statements. This standard currently has no mandatory effective date:

- IFRS 9, Financial instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that related to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Corporation has yet to assess IFRS 9's full impact. The Corporation will also consider the impact of the remaining phases of IFRS 9 when completed by the board.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Corporation.

5 Critical accounting estimates and judgments

The preparation of the Corporation's consolidated financial statements, in conformity with IFRS, requires management of the Corporation to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and judgments have been applied in a manner consistent with prior periods.

The following discusses the most significant accounting judgments and estimates that the Corporation has made in the preparation of the financial statements:

Impairment of goodwill and non-financial assets
The Corporation reviews goodwill at least annually and other non-financial assets when there is any indication that the asset might be impaired. The Corporation applies judgment in assessing the likelihood of renewal of significant contracts included in the intangible assets described in note 8. The Corporation has estimated the value in use and fair value of CGUs to which goodwill is allocated using discounted cash flow models that required assumptions about future cash flows, margins, and discount rates. Refer to note 9 for more details about methods and assumptions used in estimating net recoverable amount.

Recognition of Rebate Liabilities
In applying its accounting policy for volume rebates, the Corporation must determine whether the processing volume thresholds will be achieved. The most difficult and subjective area of judgment is whether a contract will generate satisfactory volume to achieve minimum levels. Management considers all appropriate facts and circumstances in making this assessment including historical experience, current volumetric run-rates, and expected future events.

Linen in Service
The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits of use.

Management regularly evaluates these estimates and judgments. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

6 Linen in Service

($ Thousands)	2013	2012
Balance, beginning of year	8,888	8,182
Additions	13,540	13,412
Amortization charge	(13,781)	(12,706)
Balance, end of year	8,647	8,888

7 Property, plant and equipment

($ Thousands)	Land	Buildings	Laundry Equipment[1]	Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements [2]	Spare Parts	Total
Year ended, December 31, 2012									
Opening net book amount	125	1,122	24,528	200	641	100	5,687	692	33,095
Additions	-	103	12,249	15	-	95	107	81	12,650
Disposals	-	-	(184)	-	(34)	(2)	-	-	(220)
Depreciation charge	-	(85)	(4,737)	(63)	(90)	(88)	(1,287)	-	(6,350)
Closing net book amount	125	1,140	31,856	152	517	105	4,507	773	39,175
At December 31, 2012									
Cost	125	1,377	58,637	617	913	1,636	11,544	773	75,622
Accumulated depreciation	-	(237)	(26,781)	(465)	(396)	(1,531)	(7,037)	-	(36,447)
Net book amount	125	1,140	31,856	152	517	105	4,507	773	39,175
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

[1] Included in laundry equipment are $10,686 of assets that were transferred on November 1, 2013 from "under development" to "in service" and were amortized once put into service

[2] Included in leasehold improvements are $10,892 of assets that were transferred on November 1, 2013 from "under development" to "inservice" are were amortized once put into service.

8 Intangible assets

($ Thousands)	Healthcare Contracts	Hospitality Contracts	Computer Software	Total
Year ended, December 31, 2012				
Opening net book amount	8,020	4,761	559	13,340
Acquisition of business	-	-	-	-
Amortization charge	(1,251)	(891)	(185)	(2,327)
Closing net book amount	6,769	3,870	374	11,013
At December 31, 2012				
Cost	19,200	8,366	923	28,489
Accumulated amortization	(12,431)	(4,496)	(549)	(17,476)
Net book amount	6,769	3,870	374	11,013
Year ended, December 31, 2013				
Opening net book amount	6,769	3,870	374	11,013
Amortization charge	(1,064)	(891)	(185)	(2,140)
Closing net book amount	5,705	2,979	189	8,873
At December 31, 2013				
Cost	19,200	8,366	923	28,489
Accumulated amortization	(13,495)	(5,386)	(735)	(19,616)
Net book amount	5,705	2,980	188	8,873

9 Goodwill

The Corporation performed its annual assessment for goodwill impairment as at December 31, 2013 in accordance with its policy described in Note 2(l). Goodwill has been allocated to the following CGUs:

($ Thousands)	2013	2012
Edmonton	4,346	4,346
Calgary	5,382	5,382
Vancouver 1	2,630	2,630
Victoria	3,208	3,208
Québec	654	654
Vancouver 2	3,413	3,413
Montréal	823	823
Total	20,456	20,456

In assessing goodwill for impairment at December 31, 2013, the Corporation determined that: the assets and liabilities of the Corporation have not changed significantly from the prior year at December 31, 2012; the estimated recoverable amounts of the CGUs exceeded their carrying amounts by a significant amount; no events or circumstances have changed; and, the likelihood of an impairment in goodwill is remote.

The Corporation early adopted the amendment to IAS 36 that removed the requirement to disclose the recoverable amount of CGU's with significant carrying amounts of goodwill.

In performing our analysis, estimated recoverable amounts were determined based on the value in use of the CGUs using available cash flow budgets that made maximum use of observable markets for inputs and outputs, including actual historical performance. For periods beyond the budgeted period, cash flows were extrapolated using growth rates that did not exceed the long-term averages for the business. Key assumptions included a weighted average growth rate of 3% and a pre-tax discount rate of 19% for all CGUs.

The fair value of each CGU was significantly in excess of its carrying amount. Based on sensitivity analysis, no reasonably possible change in key assumptions would cause the carrying amount of any CGU to exceed its recoverable amount. The total recoverable amount for all CGU's exceeded their carrying amount by $48,765.

10 Accounts payable and accrued liabilities

As at December 31, 2013, the Corporation has recognized a liability for the remaining lease payments for decommissioned facilities as a result of the transition to the new Edmonton plant as follows:

- In 2009 the Corporation entered into a non-cancellable lease for corporate office space which, due to the transition to the new Edmonton facility, the Corporation had ceased to use by September 30, 2013. The lease expired in January 2014 and the Corporation has vacated the office space.
- In 2004 the Corporation entered into a non-cancellable lease for the building used by the Edmonton plant. In October 2013, the corporation transitioned the Edmonton operations to the new Edmonton facility. The lease for the prior building space expires in November 2014.

The charge to occupancy costs as a result of the decommissioned facilities was $713 for the year ended December 31, 2013, of which $543 was still outstanding at as December 31, 2013.

11 Provisions

As at December 31, 2013, the Corporation has recognized a liability of $250 charged to occupancy costs for the decommissioning costs related to the former Edmonton facility.

($)	**2013**	2012
Balance, beginning of year	-	-
Adjustment made during the year	250	-
Balance, end of year	250	-

12 Long-term debt

($ Thousands)	Bankers Acceptances[1]	Prime Rate Loan[2]	Total Long Term Debt
At January 1, 2012	4,000	2,095	6,095
New debt advanced for acquisition	-	(277)	(277)
Closing Balance at December 31, 2012	4,000	1,818	5,818
Current portion of long-term debt	-	-	-
Non-current portion of long-term debt	4,000	1,818	5,818
At January 1, 2013	4,000	1,818	5,818
Draws	-	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

[1] Banker's Acceptances bear interest at 30 day BA rates plus 1.25% depending on certain financial ratios, renewable monthly until July 31, 2016. As at December 31, 2013, 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 December 31, 2013, the interest rate was 3.0%.

The Corporation has a revolving credit facility of up to $40,000 of which $20,290 is drawn (including letters of credit totaling $650 per Note 16(a)) as at December 31, 2013. The agreement is a committed facility maturing on July 31, 2016. Interest payments only are due during the term of the facility.

Drawings under the revolving credit facility are available by way of Bankers' Acceptances, Canadian prime rate loans, letters of credit or standby letters of guarantee. Drawings under the revolving credit facility bear interest at a floating rate, plus an applicable margin based on certain financial performance ratios.

A general security agreement over all assets, a mortgage against all leasehold interests and real property, insurance policies and an assignment of material agreements have been pledged as collateral.

The carrying value of borrowings approximate their fair value as the debt is based on a floating rate, the interest rate risk has not changed, and the impact of discounting is not significant.

The Corporation has incurred no events of default under the terms of its credit facility agreement.

13 Financial charges

($) Years Ended December 31	2013	2012
Interest on long-term debt	413	94
Other charges, net	182	263
	595	357

14 Unamortized lease inducements

($ Thousands)	2013	2012
Lease inducements received	1,390	699
Accumulated amortization, net	(300)	(187)
	1,090	512
Less current portion, included in accrued liabilities	(143)	(97)
	947	415

15 Income taxes

A reconciliation of the expected income tax expense to the actual income tax expense is as follows:

($ Thousands)	2013	2012
Current tax:		
Current tax on profits for the year	3,931	3,981
Total current tax	3,931	3,981
Deferred tax:		
Origination and reversal of temporary differences	203	222
Impact of change in substantively enacted tax rate	39	(28)
Total deferred tax	242	194

The tax on the Corporation's earnings differs from the theoretical amount that would arise using the weighted average tax rate applicable to earnings of the consolidated entities as follows:

($ Thousands)	2013	2012
Earnings before income taxes	14,509	15,324
Non-deductable expenses	1,573	951
Income subject to tax	16,082	16,275
Income tax at statutory rate of 25.6% (2012 - 25.3%)	4,118	4,118
Impact of substantively enacted rates and other	55	57
Income tax expense	4,173	4,175

15 Income taxes (continued)

The analysis of the deferred tax assets and deferred tax liabilities is as follows:

($ Thousands)	2013	2012
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	(81)	(184)
Deferred tax asset to be recovered within 12 months	(141)	(152)
	(222)	(336)
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	3,101	2,950
Deferred tax liability to be recovered within 12 months	2,153	2,176
	5,254	5,126
Deferred tax liabilities, net	5,032	4,790

The movement of deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdictions, is as follows:

($ Thousands)	Accounts payable and accrued liabilities	Offering costs and other	Total
Deferred tax assets			
At January 1, 2012	(534)	(91)	(625)
Charged to the statement of earnings	276	13	289
At December 31, 2012	(258)	(78)	(336)
Charged to the statement of earnings	117	(3)	114
At December 31, 2013	(141)	(81)	(222)

($ Thousands)	Linen in service	Property, plant and equipment	Intangible assets and Goodwill	Total
Deferred tax liabilities				
At January 1, 2012	2,001	1,083	2,137	5,221
Charged (credited) to the statement of earnings	159	59	(313)	(95)
At December 31, 2012	2,160	1,142	1,824	5,126
Charged (credited) to the statement of earnings	(7)	337	(202)	(128)
At December 31, 2013	2,153	1,479	1,622	5,254

16 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 (2012 – $400) 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 are as follows:

(Thousands)	$
2014	4,343
2015	3,883
2016	3,543
2017	3,122
Subsequent	12,836
	27,727

ii) Linen purchase commitments

At December 31, 2013, the Corporation was committed to linen expenditure obligations in the amount of $3,562 (2012 – $2,551) to be incurred over the next twelve months.

iii) Capital equipment commitments

At December 31, 2013, the Corporation was committed to capital expenditure obligations in the amount of $22,066 (2012 – $21,544) to be incurred over the next twelve months.

17 Share Capital

a) Authorized

The Corporation is authorized to issue an unlimited number of Common shares and such number of shares of one class designated as Preferred Shares which number shall not exceed 1/3 of the Common shares issued and outstanding from time to time.

b) Issued

	2013	2012
Balance, beginning of year	7,055,207	7,006,365
Shares issued under LTI	40,136	48,842
Balance, end of year	7,095,343	7,055,207
Unvested common shares held in trust for LTI	63,604	48,191

c) Weighted average number of shares outstanding

	2013	2012
Balance, beginning of year	7,055,207	7,006,365
Weighted average unvested shares issued for LTI	(32,508)	(24,933)
Basic weighted average shares for the year	7,022,699	6,981,432
Basic weighted average shares for the year	7,022,699	6,981,432
Dilutive effect of LTI shares	31,536	12,129
Fully diluted weighted average shares for the year	7,054,235	6,993,561

18 Earning Per Share

a) Basic

Basic earnings per share is calculated by dividing the net earnings attributable to equity holders of the Corporation by the weighted average number of ordinary shares in issue during the year.

	2013	2012
Net earnings	10,336	11,149
Weighted average number of shares outstanding (thousands)	7,023	6,981
Net earnings per share, basic	1.47	1.60

a) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares to assume conversion of all dilutive potential ordinary shares.

	2013	2012
Net earnings	10,336	11,149
Weighted average number of shares outstanding (thousands)	7,054	6,994
Net earnings per share, basic	1.47	1.59

19 Long-Term Incentive Plan

A trust was formed to hold equity grants issued under the terms of the LTI on behalf of the participants (the "LTIP Trust"). The Corporation is neither a trustee of the LTIP Trust nor a direct participant of the LTI; however, under certain circumstances the Corporation may be the beneficiary of forfeited Common shares held by the LTIP Trust. Consequently, the LTIP Trust is considered a structured entity for accounting purposes and the Corporation has consolidated the LTIP Trust in accordance with IFRS 2, Share-based Payment, and IFRS 10, Consolidated Financial Statements. Compensation expense is recorded by the Corporation in the period earned. Dividends paid by the Corporation with respect to unvested Common shares held by the LTIP Trust are paid to LTI participants. Unvested Common shares held by the LTIP Trust are shown as a reduction of shareholders' equity.

	2013		2012	
	Unvested	Vested	Unvested	Vested
Balance, beginning of year	48,191	243,628	74,511	168,466
Issued during year	26,978	13,158	36,626	12,216
Vested during year	(11,565)	11,565	(62,946)	62,946
Balance, end of year	63,604	268,351	48,191	243,628

The cost of the 63,604 (2012 – 48,191) unvested Common shares held by the LTIP Trust at December 31, 2013 was nil (2012 - $281).

The basic net earnings per share calculation excludes the unvested Common shares held by the LTIP Trust.

20 Dividends to Shareholders

During the year ended December 31, 2013, the Corporation declared total dividends to Shareholders of $8,142 or $1.15 per share (2012 - $7,977 or $1.10 per share).

The Corporation's policy is to pay dividends to Shareholders of its available cash to the maximum extent possible consistent with good business practice considering requirements for capital expenditures, working capital, growth capital and other reserves considered advisable by the Directors of the Corporation. All such dividends are discretionary. Dividends are declared payable each month to the Shareholders on the last business day of each month and are paid by the 15th day of the following month.

21 Net change in non-cash working capital items

($ Thousands)	2013	2012
Accounts receivable	(1,268)	705
Linen in service	241	(706)
Prepaid expenses and deposits	154	379
Accounts payable and accrued liabilities	1,823	(1,357)
Income taxes payable	(2,324)	558
	(1,374)	(421)

22 Financial Instruments

a) Fair value

The Corporation's financial instruments at December 31, 2013 consist of accounts receivable, accounts payable and accrued liabilities, dividends payable 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.

b) Financial risk management

The Corporation's activities are exposed to a variety of financial risks: price risk, credit risk and liquidity risk. The Corporation's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Corporation's financial performance. Risk management is carried out by financial management in conjunction with overall corporate governance.

c) Price risk

i) Currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Corporation is not significantly exposed to foreign currency risk as all revenues are received in Canadian dollars and minimal expenses are incurred in foreign currencies. For large capital expenditure commitments denominated in a foreign currency, the Corporation will enter into foreign exchange forward contracts if considered prudent to mitigate this risk.

ii) Interest rate risk

The Corporation is subject to interest rate risk as its credit facility bears interest at rates that depend on certain financial ratios of the Corporation and vary in accordance with market interest rates. Based on the outstanding balance on the Corporation's revolving credit facility, a 1% increase in the Canadian prime rate would result in an additional $196 in annual interest expense.

iii) Other price risk

The Corporation's exposure to other price risk is limited since there are no significant financial instruments which fluctuate as a result of changes in market prices.

d) Credit risk

The Corporation's financial assets that are exposed to credit risk consist of accounts receivable. The Corporation, in the normal course of business, is exposed to credit risk from its customers. The allowance for doubtful accounts and past due receivables are reviewed by management at each balance sheet reporting date. Any amounts greater than 60 days are considered overdue and all impaired amounts have been fully allowed for as at December 31, 2013.

The Corporation updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of accounts receivable balances of each customer taking into account historic collection trends, the contractual relationship with the customer and the nature of the customer which in many cases is a publicly funded health care entity.

Management believes that the risks associated with concentrations of credit risk with respect to accounts receivable are limited due to the nature of the customers and the generally short payment terms.

The aging of the Corporation's receivables and related allowance for doubtful accounts are:

($ Thousands)	Gross	Allowance	Net
December 31, 2012			
Current	10,486	-	10,486
31-60 days	3,589	-	3,589
Greater than 60 days	152	30	122
	14,227	30	14,197
December 31, 2013			
Current	11,608	-	11,608
31-60 days	3,411	-	3,411
Greater than 60 days	483	37	446
	15,502	37	15,465

While the Corporation evaluates a customer's credit worthiness before credit is extended, provisions for potential credit losses are also maintained. The change in allowance for doubtful accounts was as follows:

($ Thousands)	**2013**	2012
Balance, beginning of year	30	48
Adjustments made during the year	7	-
Write-offs	-	(18)
Balance, end of year	37	30

e) Liquidity risk

The Corporation's accounts payable and dividend payable are due within one year.

The Corporation has a credit facility with a maturity date of July 31, 2016 (Note 12). The degree to which the Corporation is leveraged may reduce its ability to obtain additional financing for working capital and to finance investments to maintain and grow the current levels of cash flows from operations. The Corporation may be unable to extend the maturity date of the credit facility.

Management, to reduce liquidity risk, has historically renewed the terms of the credit facility in advance of its maturity dates and the Corporation has maintained financial ratios that management believes are conservative compared to financial covenants applicable to the credit facility. A significant portion of the available facility remains undrawn.

Management measures liquidity risk through comparisons of current financial ratios with financial covenants contained in the credit facility.

23 Capital management

The Corporation views its capital resources as the aggregate of its debt, shareholders' equity and amounts available under its credit facility. In general, the overall capital of the Corporation is evaluated and determined in the context of its financial objectives and its strategic plan.

The Corporation's objective in managing capital is to ensure sufficient liquidity to pursue its growth and expansion strategy, while taking a conservative approach towards financial leverage and management of financial risk. The Corporation's capital is composed of shareholders' equity and long-term debt. The Corporation's primary uses of capital are to finance its growth strategies and capital expenditure programs. The Corporation currently funds these requirements from internally-generated cash flows and interest bearing debt.

The Corporation pays a dividend which reduces its ability to internally finance growth and expansion. However the availability of the Corporation's revolving line of credit provides sufficient access to capital to allow K-Bro to take advantage of acquisition opportunities. The merits of the dividend are periodically evaluated by the Board.

The primary measures used by the Corporation to monitor its financial leverage are the ratios of Funded Debt to EBITDA (earnings before income taxes, depreciation and amortization) and Fixed Charge Coverage. EBITDA is an additional GAAP measure as prescribed by IFRS and has been presented in the manner in which the chief operating decision maker assesses performance.

The Corporation manages a Funded Debt to EBITDA ratio calculated as follows:

($ Thousands)	**2013**	2012
Long-term debt, including current portion	19,640	5,818
Issued and outstanding letters of credit	650	400
Funded debt	20,290	6,218
Net earnings for the trailing twelve months	10,336	11,149
Add:		
Income tax expense	4,173	4,175
Financial charges	595	357
Depreciation of property, plant and equipment	5,965	6,350
Amortization of intangible assets	2,140	2,327
Loss on disposal of property, plant and equipment	108	159
EBITDA	23,317	24,517
Funded debt to EBITDA	0.87x	0.25x

The Corporation manages a Fixed Charge Coverage calculated on a trailing twelve-month basis as follows:

($ Thousands)	**2013**	2012
EBITDA	23,317	24,517
Financial charges	595	357
Dividends to shareholders	8,142	7,977
	8,737	8,334
Fixed charge coverage	2.7x	2.9x

24 Related party transactions

The Corporation transacts with key individuals from management and with the Board who have authority and responsibility to plan, direct and control the activities of the Corporation. The nature of these dealings were in the form of payments for services rendered in their capacity as Directors (retainers and meeting fees, including share-based payments) and as employees of the Corporation (salaries, benefits, short-term bonuses and share-based payments).

Key management personnel are defined as the executive officers of the Corporation including the President and Chief Executive Officer, Senior Vice-President and General Manager, Vice-President and Chief Financial Officer and three employees acting in the capacity of Vice-President and General Manager.

During 2013 and 2012, remuneration to directors and key management personnel was as follows:

($ Thousands)	**2013**	2012
Salaries and retainer fees	1,708	1,168
Short-term bonus incentives	757	750
Post-employment benefits	51	47
Unit-based payments	1,139	943
	3,655	3,358

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 included as salaries and retainer fees. For the year ended December 31, 2013, the Corporation incurred such fees totaling $138 (2012 – $138).

25 Expenses by nature

($ Thousands)	**2013**	2012
Wages and benefits	64,760	61,831
Linen	13,781	12,706
Utilities	8,400	8,276
Delivery	5,979	5,583
Repairs and maintenance	4,398	3,832
Occupancy costs	4,819	4,012
Materials and supplies	5,553	5,346
Other expenses	195	187
	107,885	101,773

26 Segmented information

The Chief Executive Officer is the corporation's chief operating decision-maker. Management has determined the operating segments based on information reviewed by the Chief Executive Officer for the purposes of allocating resources and assessing performance.

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. 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 year ended December 31, 2013, the Corporation has recorded revenue of $58,652 (2012 – $59,531) from these three major customers, representing 45% (2012 – 47%) of total revenue.

	2013		2012	
Healthcare	88,893	67.8%	86,610	68.6%
Hospitality	42,309	32.2%	39,680	31.4%
	131,202	100.0%	126,290	100%

27 Subsequent events

The Corporation's Board of Directors declared an eligible dividend of $0.0958 per Common share of the Corporation payable on each of February 15, March 15 and April 15 to Shareholders of record on January 31, February 28, and March 31, respectively.

Corporate information

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LEGAL COUNSEL

Goodmans LLP, *Toronto*
Bennett Jones LLP, *Edmonton*

PRINCIPAL BANK

TD Bank, *Edmonton*

STOCK EXCHANGE LISTING

TSX: KBL

NOTICE OF ANNUAL MEETING

The annual meeting of Shareholders will be held at the **Sheraton Centre Hotel**, **Kent Room**, 123 Queen Street West, Toronto, Ontario, Canada on **June 17, 2014** at **1:00pm EDT**

K-Bro Linen Inc.