



2014  
**Annual  
Report**



**K·BRO**

Visit the new [K-BroLinen.com](http://K-BroLinen.com)

# Depe ndable.

- 1. President's Message
- 2. Chairman's Message
- 6. Financial Highlights
- 12. Management's Discussion and Analysis
- 34. Consolidated Financial Statements



K-Bro is Canada's healthcare & hospitality laundry & linen processor



with facilities all across the country.





## President's Message

2014 was an exciting year for K-Bro as we celebrated our 60<sup>th</sup> anniversary and completed another record year. We remained focused on providing the best possible laundry and linen services to our valued customers. As a result, we were rewarded with the continuing loyalty and trust of our many existing and new customers.

In 2014, we began construction of our 9th plant. This new Regina facility will service all of Saskatchewan and is expected to open in late Q3 2015. As with all new K-Bro facilities, the new Regina plant will include new, modern and highly-automated equipment that will allow us to provide outstanding quality and service to our customers. We remain committed to investments that enable us to provide higher-quality and more efficient service to our customers.

2014 also saw increased operating efficiencies in our Edmonton facility as we continually worked to refine our operating processes to find further savings.

At the end of the year we completed a \$35 million dollar equity offering strengthening our balance sheet. As a result, we have a capital structure that will support significant future organic and acquisition growth.

With all of our new customers and contract renewals from existing customers, we enter 2015 with a substantial portion of our healthcare business under long-term contracts. 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 1,650 employees, 2014 was a year of success:



**Linda McCurdy**  
President & Chief Executive Officer

- Total shareholder return of 19.4%;
- Revenue in excess of \$136 million compared with \$121 million in 2013;
- EBITDA of \$26.2 million compared with \$23.3 million in 2013;
- Earnings per share of \$1.72, compared with \$1.47 in 2013; and,
- \$8.5 million in dividends (\$1.18/share);
- Market capitalization of \$367 million and with the debt to total capitalization ratio decreasing to 0.0x.

We will always ensure that our business adapts to new and changing customer needs and that we continue to provide the highest quality services to our customers. 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 customers across Canada, we know we must continue to find ways to improve every single day.

On behalf of our management team and our 1,650 dedicated employees, thank you for your continued support of K-Bro.

**Linda McCurdy**  
President & CEO



**Ross Smith**  
Chairman

## Chairman's Message

2014 was another year of tremendous growth and progress for K-Bro.

K-Bro delivered strong financial results, strengthened capital ratios and increased dividend payments. We continued to focus on superior customer service as we believe doing what is best for our customers is also what is best for K-Bro.

K-Bro's Board of Director's is committed to sound corporate governance. We continually try to balance risk and opportunities, and as a result the Company has continued to deliver strong results.

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

**Ross Smith**  
Chairman





## Officers & Directors

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

K-Bro operates eight facilities and a distribution center in eight cities, processing hospitality, healthcare and specialty 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 hospitals and extended care centres care for the young, old and vulnerable in environmentally responsible ways. Our responsibility extends to ensuring that we have a safe culture at K-Bro.

**“K-Bro delivers excellence and dependability in providing efficient, environmentally conscious and cost-effective laundry and linen services.”**

**“By expanding our expertise into new markets and leveraging our operating strengths, we have opportunities to continue the growth of revenue, further enhance operating margins, and ensure consistent and sustainable value creation for stakeholders.”**

*Linda McCurdy, President and Chief Executive Officer*

**“Our devotion to quality, innovation, and respect for our customers, employees and communities is at the heart of everything K-Bro has accomplished for the past 60 years. K-Bro has been positioned as the preeminent partner of choice by delivering solutions and services to our partners across Canada.”**

*Sean Curtis, Senior Vice-President and General Manager*

**“K-Bro has a stable business model with strong fundamentals that support our market valuation, reliable shareholder returns, and sustainable growth of our business.”**

*Kristie Plaquin, Interim Chief Financial Officer*

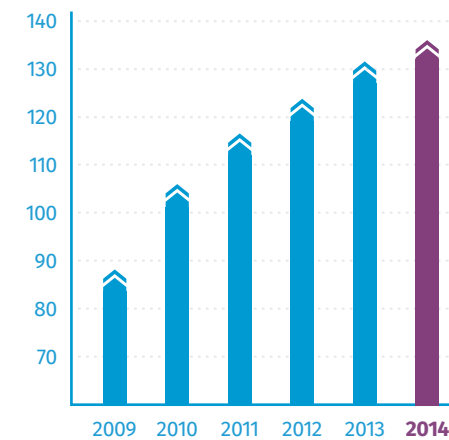


“ As our society grows, we integrate our commitment to responsibility into our new businesses, employees and the communities in which we live and work. ”

## Financial Highlights

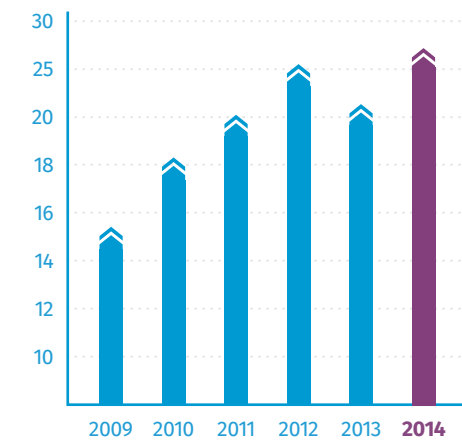
The following unaudited financial data has been derived from K-Bro's consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP. The information set forth below should be read in conjunction with the Management's Discussion & Analysis, Consolidated Financial Statements and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

### Revenue



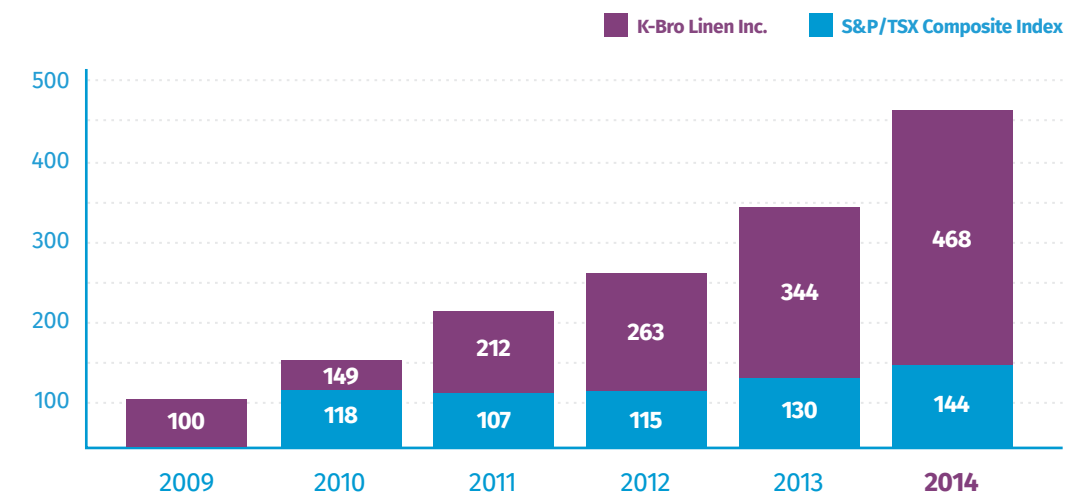
Revenue (In millions of Canadian dollars)  
Years ended December 31

### EBITDA



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

### Total Shareholder Return (on a \$100 investment in 2009)



(1) The graph reflects the total cumulative return, assuming reinvestment of all dividends, of \$100 invested on December 31, 2009 in each of the Common Shares of the Corporation and the S&P/TSX Composite (TRIV) Index.

(2) The year-end values of each investment shown on the graph are based on share price appreciation plus dividend.



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



## **Diversified and integrated services**

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

## **Committed workforce**

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

## **Strategically positioned**

K-Bro has 8 plants and one distribution center located in 8 different cities, which ensures our ability to provide uninterrupted service in the wake of disasters, pandemics or other adversity.

## **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.

## **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.

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 \$95 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.

In aggregate, our eight plants provided services to more than 1,500 customers and employed almost 1650 employees in 2014. At December 31, 2014, total assets were \$132.6 million, equity was \$109.4 million and market capitalization was \$367 million.

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.

## In 2014, 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.

**Sean Curtis**  
Senior VP & General Manager





**In 2014, 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, eight in Quebec, one 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 2014 we refined our operating processes at the new Edmonton processing facility, completed our third equity offering, began construction of our new Regina processing facility and were able to deliver stronger results to our shareholders.

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 ten 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.

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 <sup>(1)</sup>	2014	2013	2012	2011	2010	2009
<b>Income Statement Data</b>						
Revenue	136,440	131,202	126,290	116,859	104,051	87,533
EBITDA	26,241	23,317	24,517	19,946	16,877	15,547
EBITDA(%)	19.2	17.8	19.4	17.1	16.2	17.8
Net earnings	12,198	10,336	11,149	7,928	6,953	7,802
Net earnings per share (Diluted)	1.72	1.47	1.59	1.14	0.99	1.11
<b>Balance Sheet Data</b>						
Working Capital	21,722	9,434	8,064	7,245	8,664	7,896
Long-Term Debt	0	19,640	5,818	6,095	10,763	4,043
<b>Other Financial Data</b>						
Distributable cash per share	2.85	2.61	2.72	2.40	2.15	1.99
Payout Ratio(%)	42.0	44.2	41.8	45.9	51.4	55.1
Price to earnings multiple (12 month trailing)	26.9	27.0	18.1	19.6	18.5	12.1
Price to EBITDA multiple (12 month trailing)	12.5	12.0	8.2	7.8	7.6	6.1
Return on shareholders' equity <sup>(ROEX%)</sup>	11.1	14.5	16.5	12.6	11.4	12.0
Total Shareholder return, YTD(%)	19.4	41.2	34.9	27.5	43.9	50.0
Total Shareholder return, 5 yrs(%)	182.9	235.2	253.8	121.1	146.7	87.5
Market capitalization	367,023	280,976	203,613	155,821	126,866	93,451
<b>Share price:</b>						
High	47.90	40.50	30.18	22.98	19.29	13.84
Low	36.90	28.38	21.20	17.28	13.02	9.70
Close	46.11	39.60	28.86	22.24	18.30	13.48

<sup>(1)</sup> K-Bro's IFRS transition date was January 1, 2010; accordingly 2010 figures have been restated; earlier fiscal periods are presented under Canadian GAAP.

We are  
**Dependable.**








# Management's Discussion & Analysis

- 16. Introduction
- 17. Strategy
- 17. Fourth Quarter Overview
- 18. Selected Annual Financial Information
- 18. Summary of 2014 Results and Events
- 20. Key Performance Drivers
- 20. Outlook
- 21. Results of Operations
- 23. Liquidity and Capital Resources
- 24. Dividends
- 25. Distributable Cash Flow
- 26. Outstanding Shares
- 26. Related Party Transactions
- 26. Critical Accounting Estimates
- 27. Terminology
- 30. Changes in Accounting Policies
- 30. Recent Accounting Pronouncements
- 30. Financial Instruments
- 31. Critical Risks and Uncertainties
- 31. Controls and Procedures



## Management's Discussion & Analysis of Financial Condition & 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, 2014 and 2013, as well as the unaudited interim condensed Consolidated Financial Statements for the periods ended March 31, 2014, June 30, 2014 and September 30, 2014. 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 11, 2015.

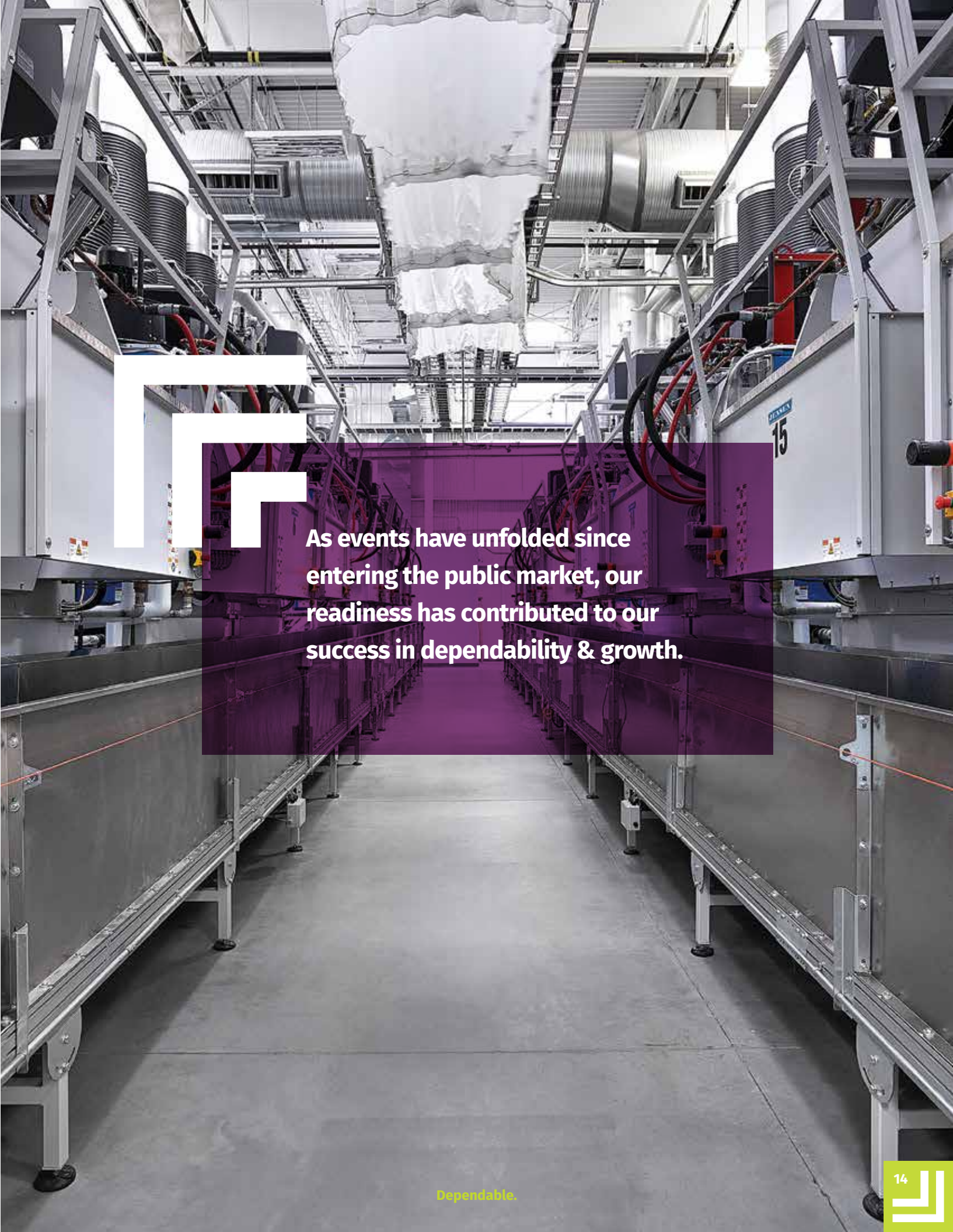
In the interest of providing current Shareholders of K-Bro Linen Inc. and potential investors with information regarding current results and future prospects, our public communications often include written or verbal forward-looking statements. Forward-looking statements are disclosures regarding possible 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.



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





**Quality, innovation and respect for our customers, employees and communities is at the very centre of everything we have done for the past 60 years.**

## 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 and one distribution centre in eight Canadian cities including Victoria, Vancouver, Calgary, Edmonton, Saskatoon, 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) 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 Cyclical*

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.

### 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 2014, revenue was \$33.8 million which was 4.5% higher than the \$32.3 million generated in the comparative quarter of 2013. This year-over-year increase was due to organic growth from existing customers across the plants and additional services provided to the Saskatoon Health Region. EBITDA increased from \$5.4 million in Q4, 2013 to \$6.3 million in Q4, 2014, this increase was a result of increased efficiencies resulting from the move to the new Edmonton facility, organic growth from existing customers across the plants and additional services provided to the Saskatoon Health Region.



## Selected Annual Financial Information

(\$ Thousands, except share & per share amounts)	2014	2013	2012
Revenue	136,440	131,202	126,290
Earnings before income taxes	16,663	14,509	15,324
Net Earnings	12,198	10,336	11,149
<b>Net Earnings per share:</b>			
Basic	1.72	1.47	1.60
Diluted	1.72	1.47	1.59
Total Assets	132,638	112,330	94,800
Long-term debt	-	19,640	5,818
Dividends declared to Shareholders	8,498	8,142	7,977
Dividends declared to Shareholders per share	1.183	1.150	1.133
<b>Number of Shares outstanding:</b>			
Basic	7,090,937	7,022,699	6,981,432
Diluted	7,111,232	7,054,235	6,993,561

## Summary of 2014 Results & Key Events

### Financial Growth

K-Bro delivered strong financial results in 2014 driven by the operating results from all eight of its processing plants. Net earnings were \$12.2 million or \$1.72 per share (basic). Cash flow from operating activities was \$23.9 million and distributable cash flow was \$20.2 million. Revenue increased in fiscal 2014 to \$136.4 million or by 4.0% compared to 2013. This increase was due to a combination of additional services provided to the Saskatoon Health Region and organic growth from existing customers across the plants.

EBITDA (see Terminology) increased in the year to \$26.2 million from \$23.3 million in 2013, which is an increase of 12.5%. The EBITDA margin increased to 19.2% in 2014 compared 17.8% in 2013. Both the EBITDA and EBITDA margin increase were predominantly a result of increased efficiencies as a result of the move to the new Edmonton facility, organic growth from existing customers across the plants, and additional services provided to the Saskatoon Health Region.

### Regina Facility Development

Management estimates that the costs to commission a new facility in Regina are expected to be approximately \$35.6 million for new equipment, land and building. The expected costs to commission the facility have increased from that previously disclosed as a result of the weakening Canadian dollar. Costs associated with the new facility began to be incurred in Q2, 2014 and will continue to be incurred until Q3, 2015. As at December 31, 2014, K-Bro has incurred \$11.2 million of the total expected capital cost. Management expects the new facility to commence processing in late Q3, 2015.





## Equity Offering

On December 9, 2014, the Corporation issued 839,500 common shares (10.5% of total share capital issued) as a part of an equity offering. The common shares issued have the same rights as the other shares in issue. The fair market value of the shares issued amounted to \$34.8 million (\$41.50/share). The related transaction costs amounting to \$1.3 million have been netted against the deemed proceeds.

## Effects of Economic Uncertainty

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

- Approximately 70.6% of its revenues in the quarter were from large publicly funded healthcare customers which are geographically diversified across multiple provinces;
- At December 31, 2014, K-Bro had unutilized borrowing capacity of \$38.4 million or 95.9% of the revolving credit line available and cash of \$13.7 million; 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 implemented various rule changes. These changes include stricter application requirements, higher application fees, caps on TFW in low wage positions, refusal of applications in regions of high unemployment, reduction to work permit durations, and increased government inspections. The rule changes, if implemented as set out, are not expected to have a material effect on the financial results or operations of the Corporation.

## 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, 2014	Q4, 2013	YTD 2014	YTD 2013
<b>Growth</b>	EBITDA <sup>(1)(%)</sup>	16.8	-6.2	12.5	-4.9
	Adjusted EBITDA <sup>(2)(%)</sup>	16.8	-6.2	9.2	-3.0
	Revenue <sup>(%)</sup>	4.5	2.2	4.0	3.9
	Distributable cash flow <sup>(%)</sup>	3.2	8.1	9.7	-3.5
<b>Profitability</b>	EBITDA <sup>(1)</sup>	6,333	5,421	26,241	23,317
	EBITDA Margin <sup>(%)</sup>	18.7	16.8	19.2	17.8
	Adjusted EBITDA <sup>(2)</sup>	6,333	5,421	26,241	24,030
	Adjusted EBITDA margin <sup>(2)(%)</sup>	18.7	16.8	19.2	18.3
	Net earnings	3,083	2,117	12,198	10,336
	Adjusted net earnings <sup>(3)</sup>	3,083	2,117	12,198	10,835
<b>Stability</b>	Debt to total capitalization <sup>(4)(%)</sup>	0.0	21.6	0.0	21.6
	Unutilized line of credit	38,350	19,710	38,350	19,710
	Payout ratio <sup>(%)</sup>	45.2	42.8	42.0	44.2
	Dividends declared per share	0.300	0.288	1.183	1.150
<b>Cost Containment</b>	Wages and Benefits <sup>(%)</sup>	44.8	46.7	44.8	46.4
	Utilities <sup>(%)</sup>	6.4	6.6	6.5	6.4
	Expenses included in EBITDA <sup>(%)</sup>	81.3	83.2	80.8	82.2

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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.

<sup>(4)</sup> 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)	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Healthcare revenue</b>	<b>23,848</b>	<b>23,068</b>	<b>23,330</b>	<b>22,641</b>	<b>22,607</b>	<b>21,874</b>	<b>22,124</b>	<b>22,288</b>
<b>Hospitality revenue</b>	<b>9,945</b>	<b>12,960</b>	<b>11,018</b>	<b>9,630</b>	<b>9,737</b>	<b>12,677</b>	<b>10,536</b>	<b>9,359</b>
<b>Total revenue</b>	<b>33,793</b>	<b>36,028</b>	<b>34,348</b>	<b>32,271</b>	<b>32,344</b>	<b>34,551</b>	<b>32,660</b>	<b>31,647</b>
Expenses included in EBITDA	27,460	28,411	27,344	26,984	26,923	28,816	26,403	25,743
EBITDA <sup>(1)</sup>	6,333	7,617	7,004	5,287	5,421	5,735	6,257	5,904
EBITDA as a % of revenue <sup>(%)</sup>	18.7	21.1	20.4	16.4	16.8	16.6	19.2	18.7
Adjusted EBITDA <sup>(2)</sup>	6,333	7,617	7,004	5,287	5,421	6,448	6,257	5,904
Depreciation and amortization	2,255	2,273	2,216	2,194	2,304	1,887	1,940	1,974
Financial charges	103	125	196	169	176	169	127	123
Loss (gain) on disposal of equipment	(30)	37	12	28	25	5	78	-
Earnings before income taxes	4,005	5,182	4,580	2,896	2,916	3,674	4,112	3,807
Income tax expense	922	1,431	1,247	865	799	1,103	1,226	1,045
Net earnings	3,083	3,751	3,333	2,031	2,117	2,571	2,886	2,762
Net earnings as a % of revenue <sup>(%)</sup>	9.1	10.4	9.7	6.3	6.5	7.4	8.8	8.7
Basic Earnings per share	0.433	0.533	0.474	0.289	0.301	0.366	0.411	0.393
Diluted earnings per share	0.432	0.529	0.471	0.287	0.300	0.364	0.410	0.391
Adjusted net earnings <sup>(3)</sup>	3,083	3,751	3,333	2,031	2,117	3,070	2,886	2,762
Basic adjusted earnings per share <sup>(3)</sup>	0.433	0.533	0.474	0.289	0.301	0.437	0.411	0.393
Diluted adjusted earnings per share <sup>(3)</sup>	0.432	0.529	0.471	0.287	0.300	0.435	0.410	0.391
Total assets	132,638	117,983	117,984	113,824	112,330	107,911	104,226	99,452
Total long-term financial liabilities	5,815	28,267	29,081	25,066	25,619	22,515	20,794	10,442
Funds provided by operations	9,401	7,787	2,705	4,016	6,399	5,106	(1,499)	9,180
Long-term debt	-	21,908	22,587	18,609	19,640	17,028	15,338	5,162
Dividends declared per share	0.300	0.300	0.296	0.288	0.288	0.288	0.288	0.288

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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, EBITDA, Adjusted EBITDA & Earnings

For the year ended December 31, 2014, K-Bro's revenue was \$136.4 million, compared to \$131.2 million in the prior year. This represents a 4.0% increase in revenue and is due to a combination of organic growth and additional services provided to the Saskatoon Health Region. In 2014 approximately 68.1% of K-Bro's revenue was generated from healthcare institutions compared to 67.8% in 2013.

EBITDA was \$26.2 million in 2014, compared to \$23.3 million in 2013. This 12.5% increase was predominantly a result of increased efficiencies as a result of the move to the new Edmonton facility, organic growth from existing customers across the plants, additional volume from Saskatoon Health Region, and the recognition of an expense for the remaining lease payments on the former processing facility in Edmonton in Q3, 2013 which was offset by increased lease costs for the new Edmonton facility in 2014.

Net earnings increased in 2014 to \$12.2 million from \$10.3 million in 2013. Net earnings as a percentage of revenue increased to 8.9% compared to 7.9% in 2013. This margin increase is due to a flow through effect of the increase in the EBITDA.

## Operating Expenses

Wages and benefits increased from \$60.9 million in 2013 to \$61.2 million in 2014 and decreased as a percentage of revenues to 44.8% from 46.4%. This decrease was a result of increased efficiencies as a result of the move to the new Edmonton facility, partially offset by incremental increases in the wage rate provided earlier in the year during Q1, 2014.

Linen expenses increased to \$14.4 million from \$13.8 million and increased to 10.6% from 10.5% as a percentage of revenue. The increase was a result of additional services provided to healthcare customers along with organic growth across the plants.

Utility costs slightly increased from 6.4% in 2013 to 6.5% as a percentage of revenue in 2014. This increase was a result of higher commodity costs in early 2014 as compared to 2013 and was partially offset by increased efficiencies as a result of the move to the new Edmonton facility.

Delivery costs have increased to \$6.2 million compared to \$6.0 million in 2013, but remained constant as a percentage of revenues at 4.6%.

Materials and supplies and repairs and maintenance remained constant as a percentage of revenue 2014 compared to 2013.

Occupancy costs increased slightly to \$4.8 million or 3.5% of revenues compared to \$4.7 million and 3.6% in 2013. The increase is mainly attributable to the increased lease costs of the new Edmonton facility offset by the recognition in 2013 of the onerous contract that related to the old Edmonton facility.

Corporate costs increased in 2014 by \$0.5 million over the comparative period of 2013 and increased as a percentage of revenues to approximately 4.4%. The increase is due to an increase in the management personal to support the company's growth and business strategies across the plants.

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.

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 decreased to approximately 26.8% of net earnings from 28.8% in 2013. This decrease was a result of a decrease in non-deductible expenses.





## Liquidity & Capital Resources

In 2014 cash generated by operating activities was \$23.9 million, compared to cash generated by operating activities of \$19.2 million in 2013. The change in cash from operations is due to the increase in earnings and changes in working capital.

During 2014, cash generated from financing activities amounted to \$5.1 million compared to \$5.7 million generated in 2013. Financing activities in 2014 included \$33.1 million in net proceeds from issuance of common shares offset by \$19.6 million in repayment of long term debt and \$8.4 million in dividends paid to Shareholders.

The Corporation used cash of \$15.2 million in investing activities during 2014 compared to \$24.9 million in 2013. The decrease in cash used in investing activities is driven by the purchase of property, plant and equipment for the new Edmonton facility in 2013, offset by the purchase of property, plant and equipment across the plants and purchases associated with the construction of the new Regina facility in 2014.

### Contractual Obligations

At December 31, 2014, payments due under contractual obligations for the next five years and thereafter are as follows:

(\$ Thousands)	Payments due by Period				
	Total	< 1 Year	1-3 Years	4-5 Years	> 5 Years
Long term debt	-	-	-	-	-
Operating leases and utility commitments	32,650	5,740	10,023	5,159	11,728
Linen purchase obligations	4,322	4,322	-	-	-
Property, plant and equipment commitments	21,741	21,741	-	-	-

The operating lease obligations are secured by automotive equipment, plants 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)	2014	2013
Long-term debt	-	19,640
Shareholders' equity	109,438	71,116
Total capitalization	109,438	90,756
<b>Debt to total capitalization</b> (see Terminology for definition)(%)	<b>0.0</b>	<b>21.6</b>

For the year ended December 31, 2014, the Corporation had a payout ratio (see Terminology) of 42.0%, a debt to total capitalization of 0%, an unused revolving credit facility of \$38.4 million and has not incurred any events of default under the terms of its credit facility agreement.

As at December 31, 2014, the Corporation had net working capital of \$21.7 million compared to its working capital position of \$9.4 million at December 31, 2013.

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	2014		2013	
			Amount per Share	Total <sup>(1)(2)</sup> Amount	Amount per Share	Total Amount
January	February 15	7,095,343	0.09580	680	0.09580	676
February	March 15	7,095,343	0.09580	680	0.09580	676
March	April 13	7,095,343	0.09580	680	0.09580	676
<b>Q1</b>			<b>0.28740</b>	<b>2,039</b>	<b>0.28741</b>	<b>2,028</b>
April	May 15	7,095,343	0.09580	680	0.09580	676
May	June 15	7,095,343	0.10000	710	0.09580	680
June	July 15	7,129,619	0.10000	713	0.09580	680
<b>Q2</b>			<b>0.29580</b>	<b>2,102</b>	<b>0.28741</b>	<b>2,036</b>
July	August 15	7,129,619	0.10000	713	0.09580	680
August	September 15	7,120,235	0.10000	712	0.09580	680
September	October 15	7,120,235	0.10000	712	0.09580	680
<b>Q3</b>			<b>0.30000</b>	<b>2,137</b>	<b>0.28741</b>	<b>2,039</b>
October	November 15	7,120,235	0.10000	712	0.09580	680
November	December 14	7,120,235	0.10000	712	0.09580	680
December	January 15	7,959,735	0.10000	796	0.09580	680
<b>Q4</b>			<b>0.30000</b>	<b>2,220</b>	<b>0.28741</b>	<b>2,039</b>
<b>YTD</b>			<b>1.18320</b>	<b>8,498</b>	<b>1.14964</b>	<b>8,142</b>

<sup>(1)</sup> The total amount of dividends paid was \$0.09580 per share for a total of \$679,734 per month for Jan-March 2014; when rounded in thousands, \$2,039 of dividends were paid for the quarterly period.

<sup>(2)</sup> The total amount of dividends paid was \$0.09580 per share for a total of \$679,734 for April, \$709,534 for May, and \$0.10000 per share for a total of \$712,961 for June 2014. When rounded in thousands, \$2,102 of dividends were paid for the quarterly period.

For the year ended December 31, 2014, the Corporation distributed \$1.18 per share compared with \$2.85 per diluted share of Distributable Cash (see Terminology). The actual payout ratio was 42.0%.

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)*

*(All amounts in this section in thousands, except per share amounts and percentages)*

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 & percentages)	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash provided by operating activities	9,401	7,787	2,705	4,016	6,399	5,106	(1,499)	9,180
<b>Deduct (add):</b>								
Net Changes in non-cash working capital items <sup>(1)</sup>	3,878	1,544	(2,995)	(1,087)	1,201	332	(6,956)	4,049
Share-based compensation expense	306	319	102	372	261	279	377	320
Maintenance capital expenditures <sup>(2)</sup>	309	127	491	315	180	293	240	173
Distributable cash flow	4,908	5,797	5,107	4,416	4,757	4,202	4,840	4,638
Distributable cash flow per weighted average diluted shares outstanding	0.688	0.817	0.721	0.624	0.673	0.596	0.688	0.657
Dividends declared	2,220	2,137	2,102	2,039	2,039	2,039	2,036	2,028
Dividends declared per share	0.300	0.300	0.296	0.288	0.288	0.288	0.288	0.288
Payout ratio <sup>(3)(%)</sup>	45.2	36.7	41.0	46.2	42.8	48.4	41.9	43.9
Weighted average shares outstanding during the period, basic	7,113	7,042	7,034	7,032	7,031	7,031	7,020	7,019
Weighted average shares outstanding during the period, diluted	7,134	7,096	7,083	7,072	7,065	7,055	7,038	7,054
<b>Trailing-twelve months ("TTM")</b>								
Distributable cash flow	20,228	20,077	18,482	18,215	18,437	18,080	19,158	19,358
Dividends	8,498	8,317	8,219	8,153	8,142	8,131	8,120	8,077
Payout ratio <sup>(3)(%)</sup>	42.0	41.4	44.5	44.8	44.2	45.0	42.5	41.7

<sup>(1)</sup>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.

<sup>(2)</sup>Maintenance capital expenditures includes costs required to maintain or replace assets which do not have a discrete return on investment.

<sup>(3)</sup>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 divided by the distributable cash flow.

## Outstanding Shares

At December 31, 2014, the Corporation had 7,959,735 common shares outstanding. Basic and diluted weighted average number of common shares outstanding for 2014 were 7,090,937 and 7,111,232 respectively, (7,022,699 and 7,054,235, respectively for the comparative 2013 periods).

In accordance with the LTI plan and in conjunction with the performance of the Corporation in the 2013 fiscal year, on May 8, 2014 the Compensation, Nominating and Corporate Governance Committee of the Board of Directors approved LTI compensation of \$1.4 million (2013 – \$1.5 million) to be paid as shares issued from treasury. As at December 31, 2014, the market value of the shares held in trust by the LTI trustee was \$2.1 million (December 31, 2013 – \$2.5 million) which was comprised of 45,368 in unvested common shares (December 31, 2013 – 63,604) with a nil aggregate cost (December 31, 2013 – \$nil). As at March 11, 2015, there were 7,959,735 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. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms. For the year ended December 31, 2014, the Corporation incurred fees totaling \$138,000 (2013 – \$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.

The following discusses the most significant accounting judgments and estimates in the Corporation's consolidated financial statements.

### 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.

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.

(\$ Thousands)	3 Months ended Dec. 31		Year ended Dec. 31	
	2014	2013	2014	2013
Net Earnings	3,083	2,117	12,198	10,336
<b>Add</b>				
Income tax expense	922	799	4,465	4,173
Financial charges	103	176	593	595
Depreciation of property, plant and equipment	1,725	1,774	6,817	5,965
Amortization of intangible assets	530	530	2,121	2,140
(Gain) Loss on disposal of property, plant and equipment	(30)	25	47	108
<b>EBITDA</b>	<b>6,333</b>	<b>5,421</b>	<b>26,241</b>	<b>23,317</b>

### 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)	3 Months ended Dec. 31		Year ended Dec. 31	
	2014	2013	2014	2013
EBITDA	6,333	5,421	26,241	23,317
<b>Add</b>				
Occupancy expense of decommissioned facilities	-	-	-	713
<b>Adjusted EBITDA</b>	<b>6,333</b>	<b>5,421</b>	<b>26,241</b>	<b>24,030</b>

### Adjusted Net Earnings & 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)	3 Months ended Dec. 31		Year ended Dec. 31	
	2014	2013	2014	2013
Net Earnings	3,083	2,117	12,198	10,336
<b>Add/(deduct), net of corporate income taxes</b>				
Occupancy expense of decommissioned facilities	-	-	-	499
<b>Adjusted net earnings</b>	<b>3,083</b>	<b>2,117</b>	<b>12,198</b>	<b>10,835</b>
<b>Adjusted net earnings, per share:</b>				
Basic	0.43	0.30	1.72	1.54
Diluted	0.43	0.30	1.72	1.54

For the year ended December 31, 2014, each of the non-GAAP adjusted measures noted above (adjusted EBITDA, adjusted net earnings and adjusted net earnings per share) are equivalent to their unadjusted measures. Accordingly, no calculations have been presented for these three measures.

### 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 nonfinancial 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, 2014, the Corporation has not entered into any off balance sheet arrangements.

## Changes in Accounting Policies

The Corporation has prepared its December 31, 2014 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, 2014. These changes were made in accordance with the applicable transitional provisions.

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

## Recent Accounting Pronouncements

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

- IFRS 15, *Revenue from Contracts with Customers*, was issued in May 2014 by the IASB and supersedes IAS 18, "Revenue", IAS 11 "Construction Contracts" and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The company is in the process of evaluating the impact that IFRS 15 may have on the financial statements.
- IFRS 9, *Financial Instruments*, was issued in July 2014 by the IASB and supersedes IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 addresses the classification, measurement and recognition of financial

assets and financial liabilities. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. IFRS 9 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The company is in the process of evaluating the impact that IFRS 9 may have on the financial statements.

## Financial Instruments

K-Bro's financial instruments at December 31, 2014 consist of cash and cash equivalents, accounts receivable, accounts payable, dividends payable, and accrued liabilities. 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 the Corporation to manage cashflow risk against the volatility in interest rates on its long-term debt and foreign exchange rates on its equipment purchase commitments. The Corporation typically does not utilize derivative financial instruments for trading or speculative purposes. The Corporation has a 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, the Corporation may enter into interest rate swaps, forward contracts on foreign currency, utilities and textiles or option contracts. The Corporation has entered into several electrical and natural gas contracts at December 31, 2014. The Corporation has examined the terms of the natural gas and electricity contracts and has determined that these contracts will be physically settled and as such are not considered to be financial instruments.



## Critical Risks & Uncertainties

As at December 31, 2014, there are no material changes in the Corporation's risks or risk management activities since December 31, 2013. 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](http://www.sedar.com).

## Controls & 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.

During the fourth quarter of 2014, the Corporation adopted the Internal Control-Integrated Framework (2013 COSO Framework) as published by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

### 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, 2014, 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, 2014 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, 2014, 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.



Additional information regarding K-Bro including required securities filings are available on our website at [www.k-broline.com](http://www.k-broline.com) and on the Canadian Securities Administrators' website at [www.sedar.com](http://www.sedar.com); the System for Electronic Document Analysis and Retrieval ("SEDAR").

Vous pouvez obtenir des renseignements supplémentaires sur la Société, y compris les documents déposés auprès des autorités de réglementation, sur notre site Web, au [www.k-broline.com](http://www.k-broline.com) et sur le site Web des autorités canadiennes en valeurs mobilières au [www.sedar.com](http://www.sedar.com), le site Web du Système électronique de données, d'analyse et de recherche (« SEDAR »).





# Consolidated Financial Statements







**PricewaterhouseCoopers LLP**  
 TD Tower, 10088 102 Avenue NW, Suite 1501, Edmonton, Alberta, Canada T5J 3N5  
 Phone 1 780 441 6700 | Fax 1 780 441 6776 | Website [pwc.com/ca](http://pwc.com/ca)  
 \*PwC\* refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

March 11, 2015

## 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, 2014 and December 31, 2013 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, 2014 and December 31, 2013 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, 2014	December 31, 2013
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	13,744	-
Accounts receivable	14,560	15,465
Prepaid expenses and deposits	1,009	917
Linen in service (note 6)	9,794	8,647
<b>Total</b>	<b>39,107</b>	<b>25,029</b>
Property, plant and equipment (note 7)	66,319	57,972
Intangible assets (note 8)	6,756	8,873
Goodwill (note 9)	20,456	20,456
<b>Assets Total</b>	<b>132,638</b>	<b>112,330</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 10)	16,346	14,824
Income taxes payable	243	91
Dividends payable to shareholders	796	680
<b>Total</b>	<b>17,385</b>	<b>15,595</b>
Long-term debt (note 11)	-	19,640
Unamortized lease inducements (note 13)	850	947
Deferred income taxes (note 14)	4,965	5,032
<b>Liabilities Total</b>	<b>23,200</b>	<b>41,214</b>
<b>Shareholders' Equity</b>		
Share capital	106,870	72,158
Contributed surplus	1,642	1,732
Retained earnings (deficit)	926	(2,774)
<b>Shareholders' Total</b>	<b>109,438</b>	<b>71,116</b>
<b>Contingencies and commitments (note 15)</b>	<b>132,638</b>	<b>112,330</b>

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

Approved on behalf of the Corporation.

 **Ross Smith**  
Chairman

 **Matthew Hills**  
Director



## Consolidated Statements of Earnings & Comprehensive Income

(\$ Thousands of Canadian dollars, except share and per share amounts)

Years ended December 31	2014	2013
<b>Revenue</b>	<b>136,440</b>	<b>131,202</b>
<b>Expenses</b>		
Wages and benefits	61,162	60,858
Linen (note 6)	14,438	13,781
Utilities	8,898	8,400
Delivery	6,246	5,979
Occupancy costs	4,800	4,703
Materials and supplies	4,474	4,337
Repairs and maintenance	4,232	4,398
Corporate	5,949	5,429
<b>Total</b>	<b>110,199</b>	<b>107,885</b>
<b>EBITDA (note 22)</b>	<b>26,241</b>	<b>23,317</b>
<b>Other expenses</b>		
Depreciation of property, plant and equipment (note 7)	6,817	5,965
Amortization of intangible assets (note 8)	2,121	2,140
Financial charges (note 12)	593	595
Loss on disposal of property, plant and equipment	47	108
<b>Total</b>	<b>9,578</b>	<b>8,808</b>
<b>Earning before income taxes</b>	<b>16,663</b>	<b>14,509</b>
Current income tax expense	4,081	3,931
Deferred income tax expense	384	242
<b>Income tax expense</b>	<b>4,465</b>	<b>4,173</b>
<b>Net earnings and Comprehensive income</b>	<b>12,198</b>	<b>10,336</b>
<b>Net earnings per share: (note 17)</b>		
Basic	1.72	1.47
Diluted	1.72	1.47
<b>Weighted average number of shares outstanding:</b>		
Basic	7,090,937	7,022,699
Diluted	7,111,232	7,054,235

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	Retained Earnings (deficit)	Total Equity
<b>As at January 1, 2014</b>	<b>72,158</b>	<b>1,732</b>	<b>(2,774)</b>	<b>71,116</b>
Net earnings	-	-	12,198	12,198
Net proceeds from common shares issued (note 16)	33,523	-	-	33,523
Dividends declared (note 19)	-	-	(8,498)	(8,498)
Employee share based compensation expense	-	1,136	-	1,136
Cash settled employee share based compensation	-	(37)	-	(37)
Shares vested during the year	1,189	(1,189)	-	-
<b>As at December 31, 2014</b>	<b>106,870</b>	<b>1,642</b>	<b>926</b>	<b>109,438</b>

(\$ Thousands of Canadian dollars)

	Total Share Capital	Contributed Surplus	Retained Earnings (deficit)	Total Equity
<b>As at January 1, 2013</b>	<b>71,444</b>	<b>1,209</b>	<b>(4,968)</b>	<b>67,685</b>
Net earnings	-	-	10,336	10,336
Dividends declared (note 19)	-	-	(8,142)	(8,142)
Employee share based compensation expense	-	1,237	-	1,237
Shares vested during the year	714	(714)	-	-
<b>As at December 31, 2013</b>	<b>72,158</b>	<b>1,732</b>	<b>(2,774)</b>	<b>71,116</b>

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





# Consolidated Statements of Cash Flow

(\$ Thousands of Canadian dollars, except share and per share amounts)

Years ended December 31	2014	2013
<b>Operating Activities</b>		
<b>Net earnings</b>	<b>12,198</b>	<b>10,336</b>
Depreciation of property, plant and equipment (note 7)	6,817	5,965
Amortization of intangible assets (note 8)	2,121	2,140
Lease inducements, net of amortization	(97)	532
Cash settled employee share based compensation	(37)	-
Employee share based compensation expense	1,136	1,237
Loss on disposal of property, plant and equipment	47	108
Deferred income taxes	384	242
<b>Total</b>	<b>22,569</b>	<b>20,560</b>
<b>Change in non-cash working capital items</b> (note 20)	<b>1,340</b>	<b>(1,374)</b>
<b>Cash provided by operating activities</b>	<b>23,909</b>	<b>19,186</b>
<b>Financing Activities</b>		
Net proceeds (repayments) of revolving credit facility	(19,640)	13,822
Net proceeds from issuance of common shares (note 16)	33,072	-
Dividends paid to shareholders (note 19)	(8,382)	(8,138)
<b>Cash provided by financing activities</b>	<b>5,050</b>	<b>5,684</b>
<b>Investing Activities</b>		
Purchase of property, plant and equipment (note 7)	(15,522)	(24,914)
Proceeds from disposal of property, plant and equipment	311	44
Purchase of intangible assets (note 8)	(4)	-
<b>Cash used in investing activities</b>	<b>(15,215)</b>	<b>(24,870)</b>
<b>Change in cash during the year</b>	<b>13,744</b>	<b>-</b>
<b>Cash, beginning of year</b>	<b>-</b>	<b>-</b>
<b>Cash, end of year</b>	<b>13,744</b>	<b>-</b>
<b>Supplementary Cash Flow Information</b>		
Interest paid	577	462
Income taxes paid	3,929	6,255

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

# Notes to the Consolidated Statements

(\$ Thousands of Canadian dollars, except share and per share amounts, years ended December 31, 2014 and 2013)

K-Bro Linen Inc. (the "Corporation" or "K-Bro") is incorporated in Canada under the Business Corporations Act (Alberta). The Corporation and its wholly owned subsidiaries provide a range of linen services to healthcare institutions, hotels and other commercial accounts that include the processing, management and distribution of general linen and operating room linen. The Corporation provides services from eight processing facilities and one distribution centre in eight major cities across Canada from Victoria, British Columbia to Québec City, Québec.

The Corporation's common shares are traded on the Toronto Stock Exchange under the symbol "KBL". The address of the Corporation's registered head office is 14903 – 137 Avenue, Edmonton, Alberta, Canada.

These audited annual consolidated financial statements (the "consolidated financial statements") were approved and authorized for issuance by the Board of Directors ("the Board") on March 11, 2015.

## 1 Basis of Presentation

The consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published in the CPA Handbook. 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 (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.

The major categories of property, plant and equipment are depreciated on a straight-line basis to allocate their cost over their estimated useful lives 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.

## 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.

## 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:

Asset	Classification	Measurement
<b>Financial assets</b>		
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
<b>Financial liabilities</b>		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Dividends payable	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, 2014**

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

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





#### 4 New Standards and interpretations not yet adopted

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

- IFRS 15, *Revenue from Contracts with Customers*, was issued in May 2014 by the IASB and supersedes IAS 18, "Revenue", IAS 11 "Construction Contracts" and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The company is in the process of evaluating the impact that IFRS 15 may have on the financial statements.
- IFRS 9, *Financial Instruments*, was issued in July 2014 by the IASB and supersedes IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through OCI and fair value through P&L. IFRS 9 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The company is in the process of evaluating the impact that IFRS 9 may have on the financial statements.

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 & 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 estimated service lives of linen in service 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 of Canadian dollars)	2014	2013
Balance, beginning of year	8,647	8,888
Additions	15,585	13,540
Amortization charge	(14,438)	(13,781)
Balance, end of year	9,794	8,647



## 7 Property, Plant & Equipment

(\$ Thousands of Canadian dollars)	Land	Buildings <sup>(1)</sup>	Laundry Equipment <sup>(2)</sup>
<b>Year ended, December 31, 2013</b>			
Opening net book amount	125	1,140	31,856
Additions	-	23	15,247
Disposals	-	-	(100)
Depreciation charge	-	(89)	(4,457)
<b>Closing net book amount</b>	<b>125</b>	<b>1,074</b>	<b>42,546</b>
<b>At December 31, 2013</b>			
Cost	125	1,400	73,562
Accumulated depreciation	-	(326)	(31,016)
<b>Net book amount</b>	<b>125</b>	<b>1,074</b>	<b>42,546</b>
<b>Year ended, December 31, 2014</b>			
Opening net book amount	125	1,074	42,546
Additions	2,300	5,692	6,698
Disposals	-	-	(295)
Transfers	-	-	58
Depreciation charge	-	(90)	(4,750)
<b>Closing net book amount</b>	<b>2,425</b>	<b>6,676</b>	<b>44,257</b>
<b>At December 31, 2014</b>			
Cost	2,425	7,092	80,023
Accumulated depreciation	-	(416)	(35,766)
<b>Net book amount</b>	<b>2,425</b>	<b>6,676</b>	<b>44,257</b>

<sup>(1)</sup>Included in buildings are assets under development in the amount of \$5,683. These assets are not available for service and accordingly are not presently being depreciated.

Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements	Spare Parts	Total
152	517	105	4,507	773	39,175
154	100	389	8,964	37	24,914
-	(52)	-	-	-	(152)
(38)	(74)	(114)	(1,193)	-	(5,965)
<b>268</b>	<b>491</b>	<b>380</b>	<b>12,278</b>	<b>810</b>	<b>57,972</b>
771	928	2,025	20,508	810	100,129
(503)	(437)	(1,645)	(8,230)	-	(42,157)
<b>268</b>	<b>491</b>	<b>380</b>	<b>12,278</b>	<b>810</b>	<b>57,972</b>
268	491	380	12,278	810	57,972
77	69	178	502	6	15,522
-	(63)	-	-	-	(358)
-	-	-	-	(58)	-
(71)	(80)	(234)	(1,592)	-	(6,817)
<b>274</b>	<b>417</b>	<b>324</b>	<b>11,188</b>	<b>758</b>	<b>66,319</b>
848	934	2,203	21,010	758	115,293
(574)	(517)	(1,879)	(9,822)	-	(48,974)
<b>274</b>	<b>417</b>	<b>324</b>	<b>11,188</b>	<b>758</b>	<b>66,319</b>

<sup>(2)</sup>Included in laundry equipment are assets under development in the amount of \$3,345. These assets are not available for service and accordingly are not presently being depreciated.





## 8 Intangible Assets

(\$ Thousands of Canadian dollars)	Healthcare Contracts	Hospitality Contracts	Computer Software	Total
<b>Year ended, December 31, 2013</b>				
Opening net book amount	6,769	3,870	374	11,013
Amortization charge	(1,064)	(891)	(185)	(2,140)
<b>Closing net book amount</b>	<b>5,705</b>	<b>2,979</b>	<b>189</b>	<b>8,873</b>
<b>At December 31, 2013</b>				
Cost	19,200	8,366	923	28,489
Accumulated amortization	(13,495)	(5,386)	(735)	(19,616)
<b>Net book amount</b>	<b>5,705</b>	<b>2,980</b>	<b>188</b>	<b>8,873</b>
<b>Year ended, December 31, 2014</b>				
Opening net book amount	5,705	2,980	188	8,873
Additions	-	-	4	4
Amortization charge	(1,042)	(892)	(187)	(2,121)
<b>Closing net book amount</b>	<b>4,663</b>	<b>2,088</b>	<b>5</b>	<b>6,756</b>
<b>At December 31, 2014</b>				
Cost	19,200	8,366	927	28,493
Accumulated amortization	(14,537)	(6,278)	(922)	(21,737)
<b>Net book amount</b>	<b>4,663</b>	<b>2,088</b>	<b>5</b>	<b>6,756</b>

## 9 Goodwill

The Corporation performed its annual assessment for goodwill impairment as at December 31, 2014 in accordance with its policy described in Note 2(l). Goodwill has been allocated to the following CGUs:

(\$ Thousands of Canadian dollars)	2014	2013
Calgary	5,382	5,382
Edmonton	4,346	4,346
Vancouver 2	3,413	3,413
Victoria	3,208	3,208
Vancouver 1	2,630	2,630
Montréal	823	823
Québec	654	654
<b>Total</b>	<b>20,456</b>	<b>20,456</b>

In assessing goodwill for impairment at December 31, 2014, the Corporation determined that: the assets and liabilities of the Corporation have not changed significantly from the prior year at December 31, 2013; 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.

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 14% 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 \$176,784.

The recoverable amount for the CGUs that were in excess of their carrying values was 186% of the carrying value of the applicable CGUs based on a weighted average.

Based on sensitivity analysis, no reasonably possible change in growth rate assumptions would cause the recoverable amount of any CGU to have a significant change from its current valuation. A 1% change in the discount rate would not have a significant impact on the recoverable amounts of CGUs. The recoverable amount of each CGU is sensitive to changes in market conditions and could result in material changes in the carrying value of intangible assets in the future.





## 10 Provisions

The Corporation has recognized provisions as at December 31, 2014 to recognize estimated obligations resulting from operations. The carrying amount of the provisions is estimated at the end of the reporting period based on best available information.

The following table provides a continuity schedule of all recorded provisions:

(\$ Thousands of Canadian dollars)	2014	2013
<b>Balance, beginning of year</b>	<b>250</b>	-
Additions	350	250
Payments	(338)	-
<b>Balance, end of year</b>	<b>262</b>	<b>250</b>

## 11 Long Term Debt

(\$ Thousands of Canadian dollars)	Bankers Acceptances <sup>(1)</sup>	Prime Rate Loan <sup>(2)</sup>	Total Long Term Debt
At January 1, 2013	4,000	1,818	5,818
Net proceeds from debt	-	13,822	13,822
<b>Closing Balance at December 31, 2013</b>	<b>4,000</b>	<b>15,640</b>	<b>19,640</b>
Current portion of long-term debt	-	-	-
<b>Non-current portion of long-term debt</b>	<b>4,000</b>	<b>15,640</b>	<b>19,640</b>
At January 1, 2014	4,000	15,640	19,640
Net proceeds from debt	-	-	-
Repayment of debt	(4,000)	(15,640)	(19,640)
<b>Closing Balance at December 31, 2014</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>(1)</sup> Bankers' Acceptances bear interest at 30 day BA rates plus 1.25% depending on certain financial ratios.

<sup>(2)</sup> 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, 2014, the interest rate was 3.0%.

The Corporation has a revolving credit facility of up to \$40,000 of which \$1,650 is drawn (including letters of credit totaling \$1,650 per Note 15(a)) as at December 31, 2014. The agreement is a committed facility maturing on July 31, 2016. Interest payments only are due during the term of the facility. The amounts borrowed were repaid on December 9, 2014.

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.

## 12 Financial Charges

(\$ Thousands of Canadian dollars)	2014	2013
Interest on long-term debt	578	413
Other charges, net	15	182
<b>Total</b>	<b>593</b>	<b>595</b>

## 13 Unamortized Lease Inducements

(\$ Thousands of Canadian dollars)	2014	2013
Balance, beginning of year	1,090	512
Lease inducements received	-	691
Amortization charge	(97)	(113)
<b>Total</b>	<b>993</b>	<b>1,090</b>
Less current portion, included in accrued liabilities	(143)	(143)
<b>Total</b>	<b>850</b>	<b>947</b>



## 14 Income Taxes

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

(\$ Thousands of Canadian dollars)	2014	2013
<b>Current tax:</b>		
Current tax on profits for the year	4,081	3,931
<b>Total current tax</b>	<b>4,081</b>	<b>3,931</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	543	203
Impact of substantively enacted rates and other	(159)	39
<b>Total deferred tax</b>	<b>384</b>	<b>242</b>

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 of Canadian dollars)	2014	2013
<b>Earnings before income taxes</b>	<b>16,663</b>	<b>14,509</b>
Non-deductible expenses	1,403	1,573
<b>Income subject to tax</b>	<b>18,066</b>	<b>16,082</b>
Income tax at statutory rate of 25.6% (2013 - 25.6%)	4,624	4,118
Impact of substantively enacted rates and other	(159)	55
<b>Income tax expense</b>	<b>4,465</b>	<b>4,173</b>

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

(\$ Thousands of Canadian dollars)	2014	2013
<b>Deferred tax assets:</b>		
Deferred tax asset to be recovered after more than 12 months	(471)	(81)
Deferred tax asset to be recovered within 12 months	(90)	(141)
<b>Total</b>	<b>(561)</b>	<b>(222)</b>
<b>Deferred tax liabilities:</b>		
Deferred tax liability to be recovered after more than 12 months	3,115	3,101
Deferred tax liability to be recovered within 12 months	2,411	2,153
<b>Total</b>	<b>5,526</b>	<b>5,254</b>
<b>Deferred tax liabilities, net</b>	<b>4,965</b>	<b>5,032</b>

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 of Canadian dollars)	Accounts Payable and Accrued Liabilities	Offering Costs and Other	Total
<b>Deferred tax assets</b>			
At January 1, 2013	(258)	(78)	(336)
Charged (credited) to the statement of earnings	117	(3)	114
<b>At December 31, 2013</b>	<b>(141)</b>	<b>(81)</b>	<b>(222)</b>
Charged (credited) to the statement of earnings	141	(29)	112
Charged (credited) to the statement of changes in equity	-	(451)	(451)
<b>At December 31, 2014</b>	<b>-</b>	<b>(561)</b>	<b>(561)</b>

(\$ Thousands of Canadian dollars)	Linen in Service	Property, Plant and Equipment	Intangible Assets and Goodwill	Total
<b>Deferred tax liabilities</b>				
At January 1, 2013	2,160	1,142	1,824	5,126
Charged (credited) to the statement of earnings	(7)	337	(202)	128
<b>At December 31, 2013</b>	<b>2,153</b>	<b>1,479</b>	<b>1,622</b>	<b>5,254</b>
Charged (credited) to the statement of earnings	258	317	(303)	272
<b>At December 31, 2014</b>	<b>2,411</b>	<b>1,796</b>	<b>1,319</b>	<b>5,526</b>



## 15 Contingencies and Commitments

### a) Contingencies – Letters of credit

The Corporation has standby letters of credit issued as part of normal business operations in the amount of \$1,650 (2013 – \$650) which will remain outstanding for an indefinite period of time.

### b) Commitments

#### (i) Operating leases and utility commitments

Minimum lease payments for operating leases on buildings and equipment and estimated natural gas and electricity commitments for the next five calendar years are as follows:

(\$ Thousands of Canadian dollars)	
2015	5,740
2016	5,355
2017	4,668
2018	3,307
Subsequent	13,580
<b>Total</b>	<b>32,650</b>

The Corporation has examined the terms of the natural gas and electricity contracts and has determined that these contracts will be physically settled and as such are not considered to be financial instruments.

#### (ii) Linen purchase commitments

At December 31, 2014, the Corporation was committed to linen expenditure obligations in the amount of \$4,322 (2013 – \$3,562) to be incurred over the next twelve months.

#### (iii) Capital expenditure commitments

At December 31, 2014, the Corporation was committed to capital expenditure obligations in the amount of \$21,741 (2013 – \$22,066) to be incurred over the next twelve months.

## 16 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

(\$ Thousands of Canadian dollars)	2014	2013
<b>Balance, beginning of year</b>	<b>7,095,343</b>	<b>7,055,207</b>
Common shares issued under LTI	24,892	40,136
Common share issuance under equity offering	839,500	-
<b>Balance, end of year</b>	<b>7,959,735</b>	<b>7,095,343</b>
<b>Unvested common shares held in trust for LTI</b>	<b>45,368</b>	<b>63,604</b>

The Corporation issued 839,500 common shares on December 9, 2014 (10.5% of total share capital issued) as a part of an equity offering. The common shares issued have the same rights as the other shares in issue. The fair market value of the shares issued amounted to \$34,839 (\$41.50/share). The related transaction costs amounting to \$1,316 have been netted against the deemed proceeds.

## 17 Earnings 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.

(\$ Thousands of Canadian dollars)	2014	2013
Net earnings	12,198	10,336
Weighted average number of shares outstanding (thousands)	7,091	7,023
Net earnings per share, basic	1.72	1.47

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





## b) 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.

(\$ Thousands of Canadian dollars)	2014	2013
Basic weighted average shares for the year	7,090,937	7,022,699
Dilutive effect of LTI shares	20,295	31,536
Fully diluted weighted average shares for the year	7,111,232	7,054,235
Net earnings	12,198	10,336
Weighted average number of shares outstanding (thousands)	7,111	7,054
Net earnings per share, diluted	1.72	1.47

## 18 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. The Corporation has control over the LTIP Trust as it is exposed, or has rights, to variable returns and has the ability to affect those returns through its power over the LTIP Trust. Therefore the Corporation has consolidated the LTIP Trust. 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.

(\$ Thousands of Canadian dollars)	2014		2013	
	Unvested	Vested	Unvested	Vested
<b>Balance, beginning of year</b>	<b>63,604</b>	<b>268,351</b>	<b>48,191</b>	<b>243,628</b>
Issued during year	24,311	9,965	26,978	13,158
Cancelled during year	(9,384)	-	-	-
Vested during year	(33,163)	33,163	(11,565)	11,565
<b>Balance, end of year</b>	<b>45,368</b>	<b>311,479</b>	<b>63,604</b>	<b>268,351</b>

The cost of the 45,368 (2013 – 63,604) unvested Common shares held by the LTIP Trust at December 31, 2014 was nil (2013 - nil).

## 19 Dividends to Shareholders

During the year ended December 31, 2014, the Corporation declared total dividends to Shareholders of \$8,498 or \$1.18 per share (2013 - \$8,142 or \$1.15 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 15<sup>th</sup> day of the following month.

## 20 Net Change in Non-Cash Working Capital Items

(\$ Thousands of Canadian dollars)	2014	2013
Accounts receivable	905	(1,268)
Linen in service	(1,147)	241
Prepaid expenses and deposits	(92)	154
Accounts payable and accrued liabilities	1,522	1,823
Income taxes payable	152	(2,324)
<b>Total</b>	<b>1,340</b>	<b>(1,374)</b>

## 21 Financial Instruments

### a) Fair Value

The Corporation's financial instruments at December 31, 2014 consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and dividends payable. 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.

#### (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, 2014.

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 of Canadian dollars)	Gross	Allowance	Net
<b>December 31, 2013</b>			
Current	11,608	-	11,608
31-60 days	3,411	-	3,411
Greater than 60 days	483	37	446
<b>Total</b>	<b>15,502</b>	<b>37</b>	<b>15,465</b>
<b>December 31, 2014</b>			
Current	11,636	-	11,636
31-60 days	2,794	-	2,794
Greater than 60 days	161	31	130
<b>Total</b>	<b>14,591</b>	<b>31</b>	<b>14,560</b>

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 of Canadian dollars)	2014	2013
<b>Balance, beginning of year</b>	<b>37</b>	<b>30</b>
Adjustments made during the year	15	7
Write-offs	(22)	-
<b>Balance, end of year</b>	<b>30</b>	<b>37</b>

## d) 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 10). 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.

## 22 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 of Canadian dollars)	2014	2013
Long-term debt, including current portion	-	19,640
Issued and outstanding letters of credit	1,650	650
<b>Funded debt</b>	<b>1,650</b>	<b>20,290</b>
Net earnings for the trailing twelve months	12,198	10,336
<b>Add:</b>		
Income tax expense	4,465	4,173
Financial charges	593	595
Depreciation of property, plant and equipment	6,817	5,965
Amortization of intangible assets	2,121	2,140
Loss on disposal of property, plant and equipment	47	108
<b>EBITDA</b>	<b>26,241</b>	<b>23,317</b>
<b>Funded debt to EBITDA</b>	<b>0.06x</b>	<b>0.87x</b>



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

(\$ Thousands of Canadian dollars)	2014	2013
<b>EBITDA</b>	<b>26,241</b>	<b>23,317</b>
Financial charges	593	595
Dividends to shareholders	8,498	8,142
<b>Total</b>	<b>9,091</b>	<b>8,737</b>
<b>Fixed charged coverage</b>	<b>2.9x</b>	<b>2.7x</b>

## 23 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 2014 and 2013, remuneration to directors and key management personnel was as follows:

(\$ Thousands of Canadian dollars)	2014	2013
Salaries and retainer fees	1,790	1,708
Short-term bonus incentives	902	757
Post-employment benefits	57	51
Share-based payments	1,067	1,139
<b>Total</b>	<b>3,816</b>	<b>3,655</b>

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by a Director. The amounts charged are included as salaries and retainer fees. For the year ended December 31, 2014, the Corporation incurred such fees totaling \$138 (2013 – \$138).

## 24 Expenses by Nature

(\$ Thousands of Canadian dollars)	2014	2013
Wages and benefits	65,414	64,760
Linen	14,438	13,781
Utilities	8,898	8,400
Delivery	6,246	5,979
Materials and supplies	5,775	5,553
Occupancy costs	5,002	4,819
Repairs and maintenance	4,232	4,398
Other expenses	194	195
<b>Total</b>	<b>110,199</b>	<b>107,885</b>

## 25 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 nine operating divisions located in Vancouver, Victoria, Calgary, Edmonton, Saskatchewan, 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, 2014, the Corporation has recorded revenue of \$61,489 (2013 – \$58,652) from these three major customers, representing 45% (2013 – 45%) of total revenue.

(\$ Thousands of Canadian dollars)	2014		2013	
Healthcare	92,887	68.1%	88,893	67.8%
Hospitality	43,553	31.9%	42,309	32.2%
<b>Total</b>	<b>136,440</b>	<b>100.0%</b>	<b>131,202</b>	<b>100%</b>

## 26 Subsequent Events

The Corporation's Board of Directors declared an eligible dividend of \$0.10 per Common share of the Corporation payable on each of February 13, March 13 and April 15, 2015 to Shareholders of record on January 31, February 28, and March 31, 2015 respectively.



# Corporate Information

Dependable.

## Board of Directors

**Ross Smith, FCA (Chair)**  
Corporate Director

**Matthew Hills, MBA**  
Managing Director  
LLM Capital Partners LLC

**Steven Matyas, BSc**  
President  
Staples Canada Inc.

**Linda McCurdy, MBA**  
President & CEO  
K-Bro Linen Systems Inc.

## Executive Officers

**Linda McCurdy, MBA**  
President & CEO

**Sean Curtis**  
Senior Vice-President &  
General Manager  
(Edmonton)

**Kristie Plaquin**  
Interim Chief Financial Officer

## Corporate Office

14903 - 137 Avenue  
Edmonton, AB T5V 1R9  
Phone 780.453.5218  
Fax 780.455.6676

[inquiries@k-brolinen.com](mailto:inquiries@k-brolinen.com)  
[www.k-brolinen.com](http://www.k-brolinen.com)

## Victoria

861 Van Isle Way  
Victoria, BC V9B 5R8  
Phone 250.474.5699  
Fax 250.474.5680

**Kevin Stephenson**  
General Manager

**Andrew Mackeen**  
Plant Manager

## Vancouver 1

8035 Enterprise Street  
Burnaby, BC V5A 1V5  
Phone 604.420.2203  
Fax 604.420.2313

**Ron Graham**  
General Manager  
**Kevin McElgunn**  
Operations Manager

## Vancouver 2

4590 Canada Way  
Burnaby, BC V5G 1J6  
Phone 604.681.3291  
Fax 604.685.1458

**Ken Chu**  
General Manager  
**John Truong**  
Operations Manager

## Calgary

6969 - 55 Street SE  
Calgary, AB T2C 4Y9  
Phone 403.724.9001  
Fax 403.720.2959

**Jeff Gannon**  
General Manager

## Edmonton

15223 - 121 A Avenue  
Edmonton, AB T5V 1N1  
Phone 780.451.3131  
Fax 780.452.2838

**Sean Curtis**  
Senior Vice-President &  
General Manager  
**Trevor Rye**  
Operations Manager

## Toronto

15 Shorncliffe Road  
Etobicoke, ON M9B 3S4  
Phone 416.233.5555  
Fax 416.233.4434

**Jerry Ostrzyzek**  
General Manager  
**Michael Beach**  
Operations Manager

## Québec

367 Boulevard Des Chutes  
Québec City, QC G1E 3G1  
Phone 418.661.6163  
Fax 418.661.4000

**Jessica Lévesque**  
Directeur Général  
**Fabien Poirier**  
Directeur Opérations

## Montréal

599, rue Simonds Sud  
Granby, QC J2J 1C1  
Phone 450.378.3187  
Fax 450.378.8245

**Sylvain Tremblay**  
Directeur Général

## Transfer Agent & Registrar

**CST Trust Company**  
Calgary, Alberta

## Auditors

**PricewaterhouseCoopers LLP**  
Edmonton, Alberta

## Legal Counsel

**Stikeman Elliott**  
Toronto, Ontario  
**McLennan Ross LLP**  
Edmonton, Alberta

## Principal Bank

**TD Bank**  
Edmonton, Alberta

## 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 16, 2015 at 1:00pm EDT**

