



K·BRO



**Q2, 2018**

CONDENSED  
CONSOLIDATED  
FINANCIAL  
STATEMENTS

# Interim Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 8,150	\$ 11,276
Accounts receivable	34,348	29,718
Income tax receivable	4,283	2,281
Prepaid expenses and deposits	4,157	3,309
Linen in service	24,950	21,456
	75,888	68,040
<b>Property, plant and equipment (note 5)</b>	<b>186,292</b>	<b>171,668</b>
<b>Intangible assets</b>	<b>15,922</b>	<b>16,979</b>
<b>Goodwill</b>	<b>38,949</b>	<b>38,526</b>
	<b>\$ 317,051</b>	<b>\$ 295,213</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 27,836	\$ 34,143
Income taxes payable	416	838
Dividends payable to shareholders	1,056	1,051
	29,308	36,032
<b>Long-term debt (note 6)</b>	<b>70,505</b>	<b>42,780</b>
<b>Unamortized lease inducements</b>	<b>2,854</b>	<b>2,583</b>
<b>Provisions</b>	<b>2,483</b>	<b>2,393</b>
<b>Deferred income taxes</b>	<b>10,833</b>	<b>9,838</b>
	<b>\$ 115,983</b>	<b>\$ 93,626</b>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b>	<b>200,334</b>	<b>199,772</b>
<b>Contributed surplus</b>	<b>2,424</b>	<b>1,952</b>
<b>Deficit</b>	<b>(3,149)</b>	<b>(65)</b>
<b>Accumulated other comprehensive income (loss)</b>	<b>1,459</b>	<b>(72)</b>
	<b>\$ 201,068</b>	<b>\$ 201,587</b>
<b>Contingencies and commitments (note 7)</b>	<b>\$ 317,051</b>	<b>\$ 295,213</b>

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

# Interim Condensed Consolidated Statements of Earnings & Comprehensive Income

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Revenue</b>	\$ 60,738	\$ 40,494	\$ 116,122	\$ 79,452
<b>Expenses</b>				
Wages and benefits	24,742	16,571	48,089	32,936
Linen	6,797	4,480	13,215	8,920
Utilities	3,493	2,322	7,028	5,045
Delivery	7,404	4,132	14,800	8,308
Occupancy costs	2,486	1,667	4,753	3,124
Materials and supplies	2,031	1,196	3,984	2,699
Repairs and maintenance	2,292	1,217	4,112	2,591
Corporate	3,039	2,216	5,487	4,372
Loss on disposal of property, plant and equipment	2	36	2	36
	52,286	33,837	101,470	68,031
<b>EBITDA</b>	8,452	6,657	14,652	11,421
<b>Other expenses</b>				
Depreciation of property, plant and equipment (note 5)	3,565	2,842	7,016	5,223
Amortization of intangible assets	706	404	1,538	832
Finance expense	716	61	1,592	246
	4,987	3,307	10,146	6,301
<b>Earnings before income taxes</b>	3,465	3,350	4,506	5,120
Current income tax expense	385	616	353	824
Deferred income tax expense	496	397	922	709
<b>Income tax expense</b>	881	1,013	1,275	1,533
<b>Net earnings</b>	\$ 2,584	\$ 2,337	\$ 3,231	\$ 3,587
<b>Other comprehensive income (loss)</b>				
Items that may be subsequently reclassified to earnings:				
Foreign currency translation differences on foreign operations	(2,882)	-	1,531	-
<b>Total comprehensive income (loss)</b>	\$ (298)	\$ 2,337	\$ 4,762	\$ 3,587
<b>Net earnings per share:</b>				
Basic	\$ 0.25	\$ 0.26	\$ 0.31	\$ 0.42
Diluted	\$ 0.25	\$ 0.26	\$ 0.31	\$ 0.42
<b>Weighted average number of shares outstanding:</b>				
Basic	10,462,213	9,103,510	10,457,941	8,544,285
Diluted	10,508,644	9,133,276	10,496,023	8,574,839

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

# Interim Condensed Consolidated Statements of Changes in Equity

(unaudited, thousands of Canadian dollars)

	Total Share Capital	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total equity
<b>As at January 1, 2018</b>	\$ 199,772	\$ 1,952	\$ (65)	\$ (72)	\$ 201,587
Total comprehensive income	-	-	3,231	1,531	4,762
Dividends declared (note 8)	-	-	(6,315)	-	(6,315)
Employee share based compensation expense	-	1,034	-	-	1,034
Shares vested during the period	562	(562)	-	-	-
<b>As at June 30, 2018</b>	\$ 200,334	\$ 2,424	\$ (3,149)	\$ 1,459	\$ 201,068

	Total Share Capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
<b>As at January 1, 2017</b>	\$ 109,390	1,944	5,338	-	\$ 116,672
Total comprehensive income	-	-	3,587	-	3,587
Net proceeds from common shares issued	55,006	-	-	-	55,006
Deferred income tax impact of share issuance	709	-	-	-	709
Dividends declared (note 8)	-	-	(5,278)	-	(5,278)
Employee share based compensation expense	-	899	-	-	899
Shares vested during the period	541	(541)	-	-	-
<b>As at June 30, 2017</b>	\$ 165,646	\$ 2,302	\$ 3,647	\$ -	\$ 171,595

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

# Interim Condensed Consolidated Statements of Cash Flow

(unaudited, thousands of Canadian dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>OPERATING ACTIVITIES</b>				
<b>Net earnings</b>	\$ 2,584	\$ 2,337	\$ 3,231	\$ 3,587
Depreciation of property, plant and equipment (note 5)	3,565	2,842	7,016	5,223
Amortization of intangible assets	706	404	1,538	832
Lease inducements, net of amortization	7	(52)	263	258
Accretion expense	13	-	88	-
Employee share based compensation expense	625	494	1,034	899
Loss on disposal of property, plant and equipment	2	36	2	36
Settlement of provision	(460)	-	(460)	-
Deferred income taxes	496	397	922	709
	<b>7,538</b>	<b>6,458</b>	<b>13,634</b>	<b>11,544</b>
Change in non-cash working capital items (note 9)	(12,167)	(4,161)	(13,638)	(2,947)
Cash provided by (used in) operating activities	<b>(4,629)</b>	<b>2,297</b>	<b>(4)</b>	<b>8,597</b>
<b>FINANCING ACTIVITIES</b>				
Net proceeds of revolving debt	14,149	(32,363)	27,725	(25,800)
Net proceeds from issuance of common shares	-	55,006	-	55,006
Dividends paid to shareholders	(3,157)	(2,715)	(6,310)	(5,122)
Cash provided by financing activities	<b>10,992</b>	<b>19,928</b>	<b>21,415</b>	<b>24,084</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	(7,537)	(16,912)	(24,749)	(27,368)
Proceeds from disposal of property, plant and equipment	6	-	6	-
Purchase of intangible assets	(106)	-	(106)	-
Cash used in investing activities	<b>(7,637)</b>	<b>(16,912)</b>	<b>(24,849)</b>	<b>(27,368)</b>
Change in cash and cash equivalents during the period	(1,274)	5,313	(3,438)	5,313
Effect of exchange rate changes on cash	(386)	-	312	-
Cash and cash equivalents, beginning of period	9,810	-	11,276	-
Cash and cash equivalents, end of period	\$ 8,150	\$ 5,313	\$ 8,150	\$ 5,313
<b>Supplementary cash flow information</b>				
Interest paid	\$ 676	\$ 117	\$ 1,245	\$ 380
Income taxes paid	\$ 1,668	\$ 946	\$ 2,806	\$ 1,892

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

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2018 and 2017)

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K-Bro Linen Inc. (the "Corporation" or "K-Bro") is incorporated in Canada under the Business Corporations Act (Alberta). K-Bro is the largest owner and operator of laundry and linen processing facilities in Canada and a market leader for laundry and textile services in Scotland and the North East of England. K-Bro and its wholly owned subsidiaries, operate across Canada and the United Kingdom ("UK"), provide a range of linen services to healthcare institutions, hotels and other commercial organizations that include the processing, management and distribution of general linen and operating room linen.

The Corporation's operations in Canada include nine processing facilities and two distribution centres under three distinctive brands, including K-Bro Linen Systems Inc., Buanderie HMR and Les Buanderies Dextraze, in ten Canadian cities: Québec City, Montréal, Toronto, Regina, Saskatoon, Prince Albert, Edmonton, Calgary, Vancouver and Victoria.

The Corporation's operations include Fishers Topco Ltd. ("Fishers") which was acquired by K-Bro on November 27, 2017. Fishers was established in 1900 and is an operator of laundry and linen processing facilities in Scotland, providing linen rental, workwear hire and cleanroom garment services to the hospitality, healthcare, manufacturing and pharmaceutical sectors. Fishers' client base includes major hotel chains and prestigious venues across Scotland and the North East of England. The company operates in seven cities, in Scotland and the North East of England with facilities in Cupar, Perth, Newcastle, Livingston, Inverness and Coatbridge.

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

These unaudited interim condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors ("the Board") on August 13, 2018.

## 1 Basis of Presentation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and Canadian Generally Accepted Accounting Principles ("GAAP"), as applicable to interim financial reports including IAS 34, *Interim Financial Reporting*, and should be read in conjunction with the annual consolidated audited financial statements for the year ended December 31, 2017 which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board, and GAAP as issued by CPA Canada. The accounting policies followed in these unaudited interim condensed consolidated financial statements are consistent with those of the previous year, except as described below.

## 2 Significant accounting policies adopted January 1, 2018

The following standards have been applied in preparing the interim condensed consolidated 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 retrospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Corporation adopted the requirements of IFRS 9 using the retrospective approach without restating comparative information effective January 1, 2018. The adoption of IFRS 9 had no impact on the Corporation's financial position or results of operations.
- IFRS 15, Revenue from Contracts with Customers, was issued in May 2014 by the IASB and supersedes

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2018 and 2017)

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IAS 18, "Revenue", IAS 11 "Construction Contracts" and other interpretive guidance associated with revenue recognition. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 is to be applied using a full retrospective or a modified retrospective approach and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The core principle of IFRS 15 is that an entity should recognize revenue based on the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, IFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue as a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer. The Corporation adopted the requirements of IFRS 15 using the modified retrospective approach, effective January 1, 2018, for any accounting or disclosure changes required under this standard. The adoption of IFRS 15 had no impact on the Corporation's financial position or results of operations.

- On June 20, 2016 the IASB issued an amendment to IFRS 2 "Share based Payment" addressing three classification and measurement issues. The amendment clarifies the measurement basis for cash-settled, share based payments and the accounting for modifications that change an award from cash-settled to equity settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly-equity settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share based payment and pay that amount to the tax authority. The amendments are effective for periods beginning on or after January 1, 2018. The Corporation adopted the amended requirements of IFRS 2 effective January 1, 2018, for any accounting or disclosure changes required under this standard. Adoption of the amendments did not result in any changes to the presentation or disclosures in the financial statements.

### 3 New Standards and interpretations not yet adopted

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

- IFRS 16, Leases, was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Corporation is in the process of evaluating the impact that IFRS 16 may have on the financial statements. The standard will affect primarily the accounting for the Corporation's operating leases. The Corporation has not yet determined to what extent these commitments will result in the recognition of assets and liabilities for future payments and how this will affect EBITDA, net earnings and classification of cash flows.

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2018 and 2017)

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## 4 Adoption of new accounting standards

As explained in note 2 above, the Corporation has adopted IFRS 15 and IFRS 9, which has resulted in the inclusion of additional depth for the Corporation's existing accounting policies.

### Revenue recognition

A laundry services contract is a contract specifically negotiated for the provision of laundry and linen services. Revenue is based on contractually set pricing on a consistent unit-of-weight or price-per-piece basis for each service over the term of the contract. The Corporation reports revenue under two revenue categories: healthcare and hospitality services. When determining the proper revenue recognition method for contracts, the Corporation evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment and the decision to combine a group of contracts or to separate a single contract into multiple performance obligations could affect the amount of revenue and profit recorded in a given period. The Corporation accounts for a contract when, it has commercial substance, the parties have approved the contract in accordance with customary business practices and are committed to their obligations, the rights of the parties and payment terms are identified, and collectability of consideration is probable.

#### 1. Identifying the Contract

The Corporation's policy for revenue recognition requires an appropriately authorized contract, with sign-off by representatives from all respective parties, before any services are provided to a customer. Contained within the terms of these contracts is detailed information identifying each party's rights regarding the laundry and linen services to be provided, as well as associated payment terms (i.e. service pricing, early payment discounts, invoicing requirements, etc.). In addition, the Corporation's contracts have commercial substance as the services to be provided will directly impact the Corporation's future cash flows via incoming revenue and related outgoing expenditures.

As part of the Corporation's analysis in reviewing and accepting a contract, the Corporation assesses the likelihood of collection from all prospective customers and only transacts with those customers from which payment is probable. As the Corporation's significant customer contracts are generally with government-funded health agencies and large volume hotels, it is probable that the Corporation will collect the consideration to which is entitled for the performance of these contracts.

For services provided following the expiration of a contract and subsequent renewal negotiations, the terms of the original contract carry forward until the new agreement has been appropriately authorized. This is confirmed through verbal approval, and is consistent with customary business practices.

#### 2. Identifying performance obligations in a contract

Linen services are provided to the Corporation's customers consecutively over a period of time (i.e. daily deliveries over the contract term) and the same method is used to measure the Corporation's progress in satisfying the performance of the contract (i.e. revenue is based on contractually set pricing on a consistent unit-of-weight or price-per-piece basis for each service over the term of the contract). Additionally, these services generally include integrated processing and delivery, consist of a single deliverable (clean processed volume), and in the case



# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2018 and 2017)

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of rental linen, are not offered individually (rental linen is used as an input in the provision of standard laundry and linen services). Therefore, the services provided under one service agreement constitute a single performance obligation.

### **3. Determining the transaction price**

The majority of the Corporation's contracts utilize a fixed pricing model. These contracts stipulate a fixed rate to be charged to customers on a price-per-unit basis, including either weight-based or item-based billing. For these types of arrangements, revenue is recognized over time as each unit of linen is processed and delivered using the fixed consideration rate per the contract. In addition to the above pricing methodology, some contracts have additional components which meet the definition of variable consideration per IFRS 15 which are accounted for using the most likely amount method. The estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the Corporation's anticipated performance and all information, historical, current and forecasted, that is reasonably available.

### **4. Allocating the Transaction Price**

Each of the Customer's individual customer contracts represents a single performance obligation. As a result, the transaction price for each contract (based contractually stipulated fixed and variable pricing for a single deliverable) is allocated to each processed item based on the agreed upon rate.

### **5. Performance obligations satisfied over time**

The Corporation typically transfers control of goods or services, and satisfies performance obligations, over time. Therefore, the Corporation recognizes revenue over time as once clean linen has been provided to the customer, and the customer has accepted delivery of the processed items.

## **Financial Instruments**

From January 1, 2018, the Corporation classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- Those to be measured at amortized cost.

The classification depends on the Corporation's business model for managing the financial assets and contractual terms of the cash flows.

At initial recognition, the Corporation measures a financial asset at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

The Corporation's financial assets consist of cash and cash equivalents and accounts receivable, which are measured at amortized cost under IFRS 9 and were previously measured at amortized cost under IAS 39.

## **Long term debt**

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2018 and 2017)

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No retrospective adjustments were required in relation to amendments made to the Corporation's credit facility prior to January 1, 2018, as the amendments were considered to be an extinguishment. The Corporation considers both quantitative and qualitative factors to assess if an amendment should be accounted for as an extinguishment or a modification.

## **Impairment of financial assets**

As discussed in note 2, the Corporation has adopted IFRS 9, which expands on the guidance and disclosure requirements on the impairment of loans and receivables, and credit risk disclosure. The Corporation has adopted the application of the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, the Corporations' trade receivables have been grouped based on operating segment, shared credit risk characteristics and days past due. Significant accounting judgment and estimate is required in the assessment of the lifetime expected default rate of each trade receivables grouping. The lifetime expected default rates are reviewed at least annually and are updated if expectations change.

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively, to determine whether there was objective evidence that impairment had been incurred but not yet been identified. For these receivables, the estimated impairment losses were recognized in a separate provision for impairment. The group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganization, and
- default or delinquency in payments (more than 30 days overdue).

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial. The Corporation's adoption of the simplified approach for credit losses prescribed by IFRS 9, effective January 1, 2018, did not result in any changes to the measurement, presentation or disclosures in the financial statements.

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2018 and 2017)

## 5 Property, plant and equipment

	Land	Buildings	Laundry Equipment <sup>(1)</sup>	Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements <sup>(2)</sup>	Spare Parts	Total
<b>Year ended, December 31, 2017</b>									
Opening net book amount	\$ 2,454	\$ 17,265	\$ 69,617	\$ 304	\$ 250	\$ 377	\$ 22,428	\$ 563	\$ 113,258
Additions <sup>(4)</sup>	-	20	36,599	49	17	417	13,141	144	50,387
Acquisition of business <sup>(5)</sup>	1,571	3,947	14,177	-	-	-	-	-	19,695
Disposals	-	-	(36)	-	-	-	-	-	(36)
Depreciation charge	-	(990)	(7,207)	(108)	(59)	(423)	(2,819)	-	(11,606)
Effect of movement in exchange rates	(2)	(7)	(21)	-	-	-	-	-	(30)
<b>Closing net book amount</b>	<b>\$ 4,023</b>	<b>\$ 20,235</b>	<b>\$ 113,129</b>	<b>\$ 245</b>	<b>\$ 208</b>	<b>\$ 371</b>	<b>\$ 32,750</b>	<b>\$ 707</b>	<b>\$ 171,668</b>
<b>At December 31, 2017</b>									
Cost	\$ 4,023	\$ 22,972	\$ 160,031	\$ 759	\$ 701	\$ 1,695	\$ 45,163	\$ 707	\$ 236,051
Accumulated depreciation	-	(2,737)	(46,902)	(514)	(493)	(1,324)	(12,413)	-	(64,383)
<b>Net book amount</b>	<b>\$ 4,023</b>	<b>\$ 20,235</b>	<b>\$ 113,129</b>	<b>\$ 245</b>	<b>\$ 208</b>	<b>\$ 371</b>	<b>\$ 32,750</b>	<b>\$ 707</b>	<b>\$ 171,668</b>
<b>Period ended, June 30, 2018</b>									
Opening net book amount	\$ 4,023	\$ 20,235	\$ 113,129	\$ 245	\$ 208	\$ 371	\$ 32,750	\$ 707	\$ 171,668
Additions <sup>(4)</sup>	-	31	8,065	11	61	110	12,761	138	21,177
Disposals	-	-	(8)	-	-	-	-	-	(8)
Transfers	-	(261)	-	-	-	-	261	-	-
Depreciation charge	-	(560)	(4,807)	(54)	(33)	(170)	(1,392)	-	(7,016)
Effect of movement in exchange rates	37	97	340	-	-	-	(3)	-	471
<b>Closing net book amount</b>	<b>\$ 4,060</b>	<b>\$ 19,542</b>	<b>\$ 116,719</b>	<b>\$ 202</b>	<b>\$ 236</b>	<b>\$ 311</b>	<b>\$ 44,377</b>	<b>\$ 845</b>	<b>\$ 186,292</b>
<b>At June 30, 2018</b>									
Cost	\$ 4,060	\$ 22,838	\$ 168,410	\$ 770	\$ 761	\$ 1,806	\$ 58,182	\$ 845	\$ 257,672
Accumulated depreciation	-	(3,296)	(51,691)	(568)	(525)	(1,495)	(13,805)	-	(71,380)
<b>Net book amount</b>	<b>\$ 4,060</b>	<b>\$ 19,542</b>	<b>\$ 116,719</b>	<b>\$ 202</b>	<b>\$ 236</b>	<b>\$ 311</b>	<b>\$ 44,377</b>	<b>\$ 845</b>	<b>\$ 186,292</b>

(1) Included in laundry equipment are assets under development in the amount of \$1,870 (2017 - \$23,625). These assets are not available for service and accordingly are not presently being depreciated.

(2) Included in leasehold improvements are assets under development in the amount of \$102 (2017 - \$8,251). These assets are not available for service and accordingly are not presently being depreciated.

(3) Total property, plant and equipment additions include amounts in accounts payable of \$1,778 (2017 - \$5,799).

(4) Additions include amounts from the Canadian Division of \$20,726 (2017 - \$50,387) and from the UK Division of \$451 (2017 - \$0).

(5) Includes amounts related to property, plant and equipment assets of the acquired business which are included in the reportable segment for the UK division.

## 6 Long-term debt

	Prime Rate Loan <sup>(1)</sup>
At January 1, 2017	\$ 25,800
Net proceeds from debt	16,980
<b>Closing balance at December 31, 2017</b>	<b>\$ 42,780</b>
At January 1, 2018	\$ 42,780
Net proceeds from debt	27,725
<b>Closing balance at June 30, 2018</b>	<b>\$ 70,505</b>

- (1) Prime rate loan, collateralized by a general security agreement, bears interest at prime plus an interest margin dependent on certain financial ratios, with a monthly repayment of interest only, maturing on July 31, 2021 (December 31, 2017 - July 31, 2021). The additional interest margin can range between 0.0% to 1.25% dependent upon the calculated Debt/EBITDA financial ratio, with a range between 0 to 3.5x. As at June 30, 2018, the combined interest rate was 4.20% (December 31, 2017 - 3.7%).

The Corporation has a revolving credit facility of up to \$100,000 plus a \$25,000 accordion of which \$72,155 is utilized (including letters of credit totaling \$1,650 as at June 30, 2018). Interest payments only are due during the term of the facility.

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2018 and 2017)

Drawings under the revolving credit facility are available by way of Bankers' Acceptances, Canadian prime rate loans, Libor of UK pounds based 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.

## 7 Contingencies and commitments

### a) Contingencies

The Corporation has standby letters of credit issued as part of normal business operations in the amount of \$1,650 (December 31, 2017 – \$1,650) which will remain outstanding for an indefinite period of time.

Grievances for unspecified damages were lodged against the Corporation in relation to labour matters. The Corporation has disclaimed liability and is defending the actions. It is not practical to estimate the potential effect of these grievances but legal advice indicates that it is not probable that a significant liability will arise.

### b) Commitments

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

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

<b>Operating lease commitments</b>	
Remainder of 2018	\$ 5,251
2019	8,431
2020	6,653
2021	5,993
2022	5,397
Subsequent	32,292
	<b>\$ 64,017</b>

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## Utility commitments

Remainder of 2018	\$	2,991
2019		1,287
2020		1,288
2021		1,274
2022		-
Subsequent		-
	\$	6,840

### (i) Linen purchase commitments

At June 30, 2018, the Corporation was committed to linen expenditure obligations in the amount of \$7,973 (December 31, 2017 - \$10,232) to be incurred within the next year.

### (ii) Property, plant and equipment commitments

At June 30, 2018, the Corporation was committed to capital expenditure obligations in the amount of \$11,095 (December 31, 2017 - \$28,748) to be incurred within the next year.

## 8 Dividends to shareholders

During the three months ended June 30, 2018, the Corporation declared total dividends to shareholders of \$3,163 or \$0.300 per share (June 30, 2017 - \$2,871 or \$0.300 per share). During the Six months ended June 30, 2018, the Corporation declared total dividends to shareholders of \$6,315 or \$0.600 per share (2017 - \$5,278 or \$0.600 per share).

## 9 Change in non-cash working capital items

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Accounts receivable	\$ (4,850)	\$ 76	\$ (4,458)	\$ 583
Linen in service	(1,881)	(762)	(3,357)	(1,725)
Prepaid expenses and deposits	(496)	(786)	(820)	(854)
Accounts payable and accrued liabilities	(3,657)	(2,358)	(2,553)	117
Income taxes payable / receivable	(1,283)	(331)	(2,450)	(1,068)
	\$ (12,167)	\$ (4,161)	\$ (13,638)	\$ (2,947)

(1) Accounts payable and accrued liabilities exclude the net change in non-cash amounts related to the acquisition of property, plant and equipment that have been committed to but not yet paid of \$-4,021 (2017 - \$-1,390).

## 10 Fair value of financial instruments

The Corporation's financial instruments at June 30, 2018 and December 31, 2017 consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable to shareholders, and long term debt. The fair 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

# Notes to the Interim Condensed Consolidated Financial Statements

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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.

## 11 Related party transactions

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by a Director. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms. For the three months ended June 30, 2018, the Corporation incurred such fees totaling \$35 (2017- \$35). For the six months ended June 30, 2018, the Corporation incurred such fees totaling \$69 (2017- \$69).

## 12 Segmented information

The Chief Executive Officer ("CEO") is the corporation's chief operating decision-maker. The Chief Executive Officer examines the Corporation's performance and allocation of resources both from geographic perspective and service type, and has identified two reportable segments of its business:

1. Canadian division - provides laundry and linen services to the healthcare and hospitality sectors through nine operating divisions located in Vancouver, Victoria, Calgary, Edmonton, Regina, Toronto, Montréal, and Québec City. Management has assessed that the services offered and the economic characteristics associated with these divisions are similar, and therefore they have been aggregated into one reportable segment which operates exclusively in Canada.
2. UK division - provides laundry and linen services primarily to the hospitality sector with less than 10% of the revenue generated in other service sectors, through six plants and a distribution center located in North Lanarkshire, Inverness, West Lothian, North Shields, Perth, and Fife.

The aggregation assessment requires significant judgment by management. Economic indicators used by management to assess the economic characteristics are the gross margin and the growth rate of each division.

The CEO primarily uses a measure of EBITDA to assess the performance of the operating segments. However, the CEO also receives information about the segments' revenue and assets on a monthly basis.

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2018 and 2017)

## a) Segment revenue

The Corporation disaggregates revenue from contracts with customers by geographic location and customer-type for each of our segments, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same manner as in the consolidated statements of earnings & comprehensive income.

In Edmonton, the Corporation is the significant supplier of laundry and linen services to the entity which manages all major healthcare facilities in the region and this contract expires on March 31, 2023. In Calgary, the major customer is contractually committed to February 28, 2019, in Vancouver the major customer is contractually committed to March 1, 2027, and in Saskatchewan the major customer is contractually committed to June 1, 2025. For the six months ended June 30, 2018, from these four major customers the Corporation has recorded revenue of \$48,648 (2017 - \$45,223), representing 41.7% (2017 - 56.9%) of total revenue.

	Six Months Ended June 30, 2018		Six Months Ended June 30, 2017	
Healthcare	\$ 64,203	55.2%	\$ 56,552	71.2%
Hospitality	23,747	20.5%	22,900	28.8%
<b>Canadian division</b>	<b>\$ 87,950</b>	<b>75.7%</b>	<b>\$ 79,452</b>	<b>100.0%</b>
Healthcare	\$ 3,262	2.8%	\$ -	0.0%
Hospitality	24,910	21.5%	-	0.0%
<b>UK division</b>	<b>\$ 28,172</b>	<b>24.3%</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Total segment revenue</b>	<b>\$ 116,122</b>	<b>100.0%</b>	<b>\$ 79,452</b>	<b>100.0%</b>

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2018 and 2017)

## b) Segment EBITDA

Segment EBITDA is calculated consistent with the presentation in the financial statements. The EBITDA is allocated based on the operations of the segment, and where the earnings and costs are generated from.

<b>Six Months Ended June 30, 2018</b>	<b>Canadian division</b>	<b>UK division</b>	<b>Total</b>
Net earnings	\$ 2,469	\$ 762	\$ 3,231
<i>Add:</i>			
Income tax expense	1,267	8	1,275
Finance expense	1,584	8	1,592
Depreciation of property, plant and equipment	5,743	1,273	7,016
Amortization of intangible assets	355	1,183	1,538
<b>EBITDA</b>	<b>\$ 11,418</b>	<b>\$ 3,234</b>	<b>\$ 14,652</b>

<b>Six Months Ended June 30, 2017</b>	<b>Canadian division</b>	<b>UK division</b>	<b>Total</b>
Net earnings	\$ 3,587	\$ -	\$ 3,587
<i>Add:</i>			
Income tax expense	1,533	-	1,533
Finance expense	246	-	246
Depreciation of property, plant and equipment	5,223	-	5,223
Amortization of intangible assets	832	-	832
<b>EBITDA</b>	<b>\$ 11,421</b>	<b>\$ -</b>	<b>\$ 11,421</b>

The Canadian division net earnings includes non-cash employee share based compensation expense of \$1,034 (2017 - \$899).



# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2018 and 2017)

## c) Segment assets

Segment assets are measured in the same way as in the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

The Corporation's cash and cash equivalents are not considered to be segment assets, but are managed by the treasury function.

<b>At June 30, 2018</b>	<b>Canadian division</b>	<b>UK division</b>	<b>Total</b>
Total assets	\$ 236,060	\$ 80,991	\$ 317,051
Other:			
Cash and cash equivalents	-	(8,150)	(8,150)
Intercompany loans	(477)	477	-
<b>Total segment assets</b>	<b>\$ 235,583</b>	<b>\$ 73,318</b>	<b>\$ 308,901</b>

<b>At December 31, 2017</b>	<b>Canadian division</b>	<b>UK division</b>	<b>Total</b>
Total assets	\$ 225,339	\$ 69,874	\$ 295,213
Other:			
Cash and cash equivalents	-	(11,276)	(11,276)
Intercompany loans	(10,934)	10,934	-
<b>Total segment assets</b>	<b>\$ 214,405</b>	<b>\$ 69,532</b>	<b>\$ 283,937</b>

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2018 and 2017)

## d) Segment liabilities

Segment liabilities are measured in the same way as in the financial statements. These liabilities are allocated based on the operations of the segment.

The Corporation's borrowings are not considered to be segment liabilities, but are managed by the treasury function.

At June 30, 2018	Canadian division	UK division	Total
Total liabilities	\$ 102,290	\$ 13,693	\$ 115,983
Other:			
Long-term debt (note 6)	(70,505)	-	(70,505)
<b>Total segment liabilities</b>	<b>\$ 31,785</b>	<b>\$ 13,693</b>	<b>\$ 45,478</b>

At December 31, 2017	Canadian division	UK division	Total
Total liabilities	\$ 78,410	\$ 15,216	\$ 93,626
Other:			
Long-term debt (note 6)	(42,780)	-	(42,780)
<b>Total segment liabilities</b>	<b>\$ 35,630</b>	<b>\$ 15,216</b>	<b>\$ 50,846</b>

## 13 Subsequent events

### a) Dividends

On July 13, 2018, the Board declared an eligible dividend of \$0.1000 per common share of the Corporation payable on August 15, 2018 to shareholders of record on July 31, 2018.

On August 13, 2018, the Board declared an eligible dividend of \$0.1000 per common share of the Corporation payable on September 14, 2018 to shareholders of record on August 31, 2018.

### b) Business acquisition

On May 9, 2018, the Corporation signed an asset purchase agreement to acquire all the assets of a private laundry and linen services company incorporated in Canada and operating in Calgary, Alberta. The acquisition is expected to close on October 1, 2018 for total consideration \$4,700. The acquisition will be accounted for using the acquisition method, whereby the purchase consideration will be allocated to the net assets acquired.