www.k-brolinen.com | inquiries@k-brolinen.com

Interim Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,901	$ 11,276
Accounts receivable	35,332	29,718
Income tax receivable	3,466	2,281
Prepaid expenses and deposits	3,649	3,309
Linen in service	25,877	21,456
	71,225	68,040
Property, plant and equipment (note 5)	192,478	171,668
Intangible assets	14,822	16,979
Goodwill	38,443	38,526
	$ 316,968	$ 295,213
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 32,749	$ 34,143
Income taxes payable	420	838
Dividends payable to shareholders	1,056	1,051
	34,225	36,032
Long-term debt (note 6)	67,045	42,780
Unamortized lease inducements	2,855	2,583
Provisions	2,469	2,393
Deferred income taxes	12,067	9,838
	$ 118,661	$ 93,626
SHAREHOLDERS' EQUITY		
Share capital	200,334	199,772
Contributed surplus	2,827	1,952
Deficit	(4,431)	(65)
Accumulated other comprehensive loss	(423)	(72)
	$ 198,307	$ 201,587
Contingencies and commitments (note 7)		
	$ 316,968	$ 295,213

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 September 30,		Nine Months Ended September 30,	
	2018	2017	**2018**	2017
Revenue	**$ 63,972**	$ 43,598	**$ 180,094**	$ 123,050
Expenses				
Wages and benefits	**27,174**	17,799	**75,263**	50,735
Linen	**6,737**	4,613	**19,952**	13,533
Utilities	**3,853**	2,526	**10,881**	7,571
Delivery	**8,003**	4,495	**22,803**	12,803
Occupancy costs	**2,709**	1,581	**7,462**	4,705
Materials and supplies	**2,414**	1,404	**6,398**	4,103
Repairs and maintenance	**2,146**	1,368	**6,258**	3,959
Corporate	**2,730**	1,701	**8,217**	6,073
(Gain) loss on disposal of property, plant and equipment	**(104)**	-	**(102)**	36
	55,662	35,487	**157,132**	103,518
EBITDA	**8,310**	8,111	**22,962**	19,532
Other expenses				
Depreciation of property, plant and equipment (note 5)	**4,371**	2,840	**11,387**	8,063
Amortization of intangible assets	**698**	373	**2,236**	1,205
Finance expense	**857**	101	**2,449**	347
	5,926	3,314	**16,072**	9,615
Earnings before income taxes	**2,384**	4,797	**6,890**	9,917
Current income tax (recovery) expense	**(820)**	576	**(467)**	1,400
Deferred income tax expense	**1,318**	803	**2,240**	1,512
Income tax expense	**498**	1,379	**1,773**	2,912
Net earnings	**$ 1,886**	$ 3,418	**$ 5,117**	$ 7,005
Other comprehensive income				
Items that may be subsequently reclassified to earnings:				
Foreign currency translation differences on foreign operations	**(1,882)**	-	**(351)**	-
Total comprehensive income	**$ 4**	$ 3,418	**$ 4,766**	$ 7,005
Net earnings per share:				
Basic	**$ 0.18**	$ 0.36	**$ 0.49**	$ 0.79
Diluted	**$ 0.18**	$ 0.36	**$ 0.49**	$ 0.79
Weighted average number of shares outstanding:				
Basic	**10,470,255**	9,510,725	**10,462,091**	8,869,971
Diluted	**10,540,278**	9,547,538	**10,513,782**	8,907,010

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 loss	Total equity
As at January 1, 2018	$ 199,772	$ 1,952	$ (65)	$ (72)	$ 201,587
Total comprehensive income	-	-	5,117	(351)	4,766
Dividends declared (note 8)	-	-	(9,483)	-	(9,483)
Employee share based compensation expense	-	1,437	-	-	1,437
Shares vested during the period	562	(562)	-	-	-
As at September 30, 2018	$ 200,334	$ 2,827	$ (4,431)	$ (423)	$ 198,307

	Total Share Capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total equity
As at January 1, 2017	$ 109,390	1,944	5,338	-	$ 116,672
Total comprehensive income	-	-	7,005	-	7,005
Net proceeds from common shares issued	55,000	-	-	-	55,000
Deferred income tax impact of share issuance	709	-	-	-	709
Dividends declared (note 8)	-	-	(8,153)	-	(8,153)
Employee share based compensation expense	-	1,175	-	-	1,175
Shares vested during the period	541	(541)	-	-	-
As at September 30, 2017	$ 165,640	$ 2,578	$ 4,190	$ -	$ 172,408

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 September 30,		Nine Months Ended September 30,	
	2018	2017	**2018**	2017
OPERATING ACTIVITIES				
Net earnings	**$ 1,886**	$ 3,418	**$ 5,117**	$ 7,005
Depreciation of property, plant and equipment (note 5)	**4,371**	2,840	**11,387**	8,063
Amortization of intangible assets	**698**	373	**2,236**	1,205
Lease inducements, net of amortization	**10**	(5)	**273**	253
Accretion expense	**1**	-	**89**	-
Employee share based compensation expense	**403**	276	**1,437**	1,175
(Gain) loss on disposal of property, plant and equipment	**(104)**	-	**(102)**	36
Settlement of provision	**-**	-	**(460)**	-
Deferred income taxes	**1,318**	803	**2,240**	1,512
	8,583	7,705	**22,217**	19,249
Change in non-cash working capital items (note 9)	**1,176**	(3,917)	**(12,462)**	(6,864)
Cash provided by operating activities	**9,759**	3,788	**9,755**	12,385
FINANCING ACTIVITIES				
Net proceeds of revolving debt	**(3,460)**	-	**24,265**	(25,800)
Net proceeds from issuance of common shares	**-**	(6)	**-**	55,000
Dividends paid to shareholders	**(3,168)**	(2,875)	**(9,478)**	(7,997)
Cash (used in) provided by financing activities	**(6,628)**	(2,881)	**14,787**	21,203
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(8,312)**	(5,154)	**(33,061)**	(32,522)
Proceeds from disposal of property, plant and equipment	**182**	-	**188**	-
Purchase of intangible assets	**-**	-	**(106)**	-
Cash used in investing activities	**(8,130)**	(5,154)	**(32,979)**	(32,522)
Change in cash and cash equivalents during the period	**(4,999)**	(4,247)	**(8,437)**	1,066
Effect of exchange rate changes on cash	**(250)**		**62**	-
Cash and cash equivalents, beginning of period	**8,150**	5,313	**11,276**	-
Cash and cash equivalents, end of period	**$ 2,901**	$ 1,066	**$ 2,901**	$ 1,066
Supplementary cash flow information				
Interest paid	**$ 787**	$ 67	**$ 2,032**	$ 448
Income taxes (recovered) paid	**$ (1,654)**	$ 2,001	**$ 1,152**	$ 3,893

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

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 November 8, 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 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 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 will supersede the current lease recognition guidance including IAS 17 "Leases" and the related interpretations when it becomes effective. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires

lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At this time, the Corporation has not finalized its quantification of the effect of the new standard, although the following consequences are anticipated:

- The amount of total assets and total liabilities in the consolidated balance sheets will increase due to the recognition of right-of-use assets and financial liabilities for future payment obligations from leases previously classified as operating leases.
- Operating lease payments previously reported as an operating expense in the consolidated statements of income will be replaced with depreciation expense from the right of use asset and interest expense from the lease liability.
- Cash flows from operating activities is expected to increase under IFRS 16 as lease payments for substantially all leases will be recorded as financing outflows in the statement of cash flows as opposed to operating cash flows.
- The Corporation expects to adopt the recognition exemptions permitted for short-term leases (less than twelve months) and leases for which the underlying asset has a low value, whereby the lease payments associated with these leases will continue to be expensed on a straight-line basis over the lease term.

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 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 on 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, 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 though 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

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 Corporation's 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.

5 Property, plant and equipment

	Land	Buildings	Laundry Equipment[1]	Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements[2]	Spare Parts	Total
Year ended, December 31, 2017									
Opening net book amount	$ 2,454	$ 17,265	$ 69,617	$ 304	$ 250	$ 377	$ 22,428	$ 563	$ 113,258
Additions [4]	-	20	36,599	49	17	417	13,141	144	50,387
Acquisition of business [5]	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)
Closing net book amount	$ 4,023	$ 20,235	$ 113,129	$ 245	$ 208	$ 371	$ 32,750	$ 707	$ 171,668
At December 31, 2017									
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)
Net book amount	$ 4,023	$ 20,235	$ 113,129	$ 245	$ 208	$ 371	$ 32,750	$ 707	$ 171,668
Period ended, September 30, 2018									
Opening net book amount	**$ 4,023**	**$ 20,235**	**$ 113,129**	**$ 245**	**$ 208**	**$ 371**	**$ 32,750**	**$ 707**	**$ 171,668**
Additions [4]	**-**	**32**	**18,107**	**152**	**61**	**172**	**13,253**	**576**	**32,353**
Disposals	**-**	**-**	**(86)**	**-**	**-**	**-**	**-**	**-**	**(86)**
Transfers	**-**	**(258)**	**-**	**-**	**-**	**-**	**258**	**-**	**-**
Depreciation charge	**-**	**(844)**	**(7,726)**	**(90)**	**(51)**	**(317)**	**(2,359)**	**-**	**(11,387)**
Effect of movement in exchange rates	**(8)**	**(9)**	**(42)**	**(4)**	**-**	**-**	**(7)**	**-**	**(70)**
Closing net book amount	**$ 4,015**	**$ 19,156**	**$ 123,382**	**$ 303**	**$ 218**	**$ 226**	**$ 43,895**	**$ 1,283**	**$ 192,478**
At September 30, 2018									
Cost	**$ 4,015**	**$ 22,734**	**$ 175,847**	**$ 849**	**$ 761**	**$ 1,868**	**$ 58,608**	**$ 1,283**	**$ 265,965**
Accumulated depreciation	**-**	**(3,578)**	**(52,465)**	**(546)**	**(543)**	**(1,642)**	**(14,713)**	**-**	**(73,487)**
Net book amount	**$ 4,015**	**$ 19,156**	**$ 123,382**	**$ 303**	**$ 218**	**$ 226**	**$ 43,895**	**$ 1,283**	**$ 192,478**

(1) Included in laundry equipment are assets under development in the amount of $347 (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 $0 (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 $4,641 (2017 - $5,799).

(4) Additions include amounts from the Canadian Division of $30,254 (2017 - $50,387) and from the UK Division of $2,099 (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[1]
At January 1, 2017	$ 25,800
Net proceeds from debt	16,980
Closing balance at December 31, 2017	$ 42,780
At January 1, 2018	**$ 42,780**
Net proceeds from debt	**24,265**
Closing balance at September 30, 2018	**$ 67,045**

(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 September 30, 2018, the combined interest rate was 4.45% (December 31, 2017 – 3.7%).

The Corporation has a revolving credit facility of up to $100,000 plus a $25,000 accordion of which $68,695 is utilized (including letters of credit totaling $1,650 as at September 30, 2018). Interest payments only are due during the term of the facility.

Drawings under the revolving credit facility are available by way of Bankers' Acceptances, Canadian prime rate loans, 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:

Operating lease commitments

Remainder of 2018	$	2,291
2019		8,131
2020		6,462
2021		5,995
2022		5,426
Subsequent		32,255
	$	60,560

Utility commitments

Remainder of 2018	$	2,160
2019		4,007
2020		1,288
2021		1,274
2022		-
Subsequent		-
	$	8,729

(i) Linen purchase commitments

At September 30, 2018, the Corporation was committed to linen expenditure obligations in the amount of $6,625 (December 31, 2017 – $10,232) to be incurred within the next year.

(ii) Property, plant and equipment commitments

At September 30, 2018, the Corporation was committed to capital expenditure obligations in the amount of $1,231 (December 31, 2017 – $28,748) to be incurred within the next year.

8 Dividends to shareholders

During the three months ended September 30, 2018, the Corporation declared total dividends to shareholders of $3,168 or $0.300 per share (September 30, 2017 - $2,875 or $0.300 per share). During the Nine months ended September 30, 2018, the Corporation declared total dividends to shareholders of $9,483 or $0.900 per share (2017 - $8,153 or $0.900 per share).

9 Change in non-cash working capital items

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Accounts receivable	$ (1,255)	$ (627)	$ (5,713)	$ (44)
Linen in service	(1,163)	(1,187)	(4,520)	(2,912)
Prepaid expenses and deposits	461	(396)	(359)	(1,250)
Accounts payable and accrued liabilities [1]	2,295	(282)	(258)	(165)
Income taxes payable / receivable	838	(1,425)	(1,612)	(2,493)
	$ 1,176	$ (3,917)	$ (12,462)	$ (6,864)

(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 $-1,158 (2017 - $776).

10 Fair value of financial instruments

The Corporation's financial instruments at September 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 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 September 30, 2018, the Corporation incurred such fees totaling $35 (2017– $35). For the nine months ended September 30, 2018, the Corporation incurred such fees totaling $104 (2017– $104).

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 other sectors including healthcare, manufacturing and pharmaceutical, through seven sites including one distribution center, which are located in Cupar, Perth, Newcastle, Livingston, Inverness and Coatbridge.

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.

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 nine months ended September 30, 2018, from these four major customers the Corporation has recorded revenue of $73,403 (2017 – $67,434), representing 40.6% (2017 – 54.8%) of total revenue.

	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
Healthcare	$	96,021	53.3%	$	85,573	69.5%
Hospitality		38,801	21.5%		37,477	30.5%
Canadian division	$	134,822	74.8%	$	123,050	100.0%
Healthcare	$	4,822	2.7%	$	-	0.0%
Hospitality		40,450	22.5%		-	0.0%
UK division	$	45,272	25.2%	$	-	0.0%
Total segment revenue	$	180,094	100.0%	$	123,050	100.0%

b) Segment net earnings and EBITDA

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

Nine Months Ended September 30, 2018	**Canadian division**	**UK division**	**Total**
Net earnings	$ 2,669	$ 2,448	**$ 5,117**
EBITDA	$ 16,532	$ 6,430	**$ 22,962**

Nine Months Ended September 30, 2017	**Canadian division**	**UK division**	**Total**
Net earnings	$ 7,005	$ -	**$ 7,005**
EBITDA	$ 19,532	$ -	**$ 19,532**

The Canadian division net earnings includes non-cash employee share based compensation expense of $1,437 (2017 – $1,175).

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.

At September 30, 2018	Canadian division	UK division	Total
Total assets	$ 241,984	$ 74,984	**$ 316,968**
Other:			
Cash and cash equivalents	-	(2,901)	**(2,901)**
Intercompany loans	-	-	**-**
Total segment assets	**$ 241,984**	**$ 72,083**	**$ 314,067**

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

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 September 30, 2018	Canadian division	UK division	Total
Total liabilities	$ 105,504	$ 13,157	**$ 118,661**
Other:			
Long-term debt (note 6)	(67,045)	-	**(67,045)**
Total segment liabilities	**$ 38,459**	**$ 13,157**	**$ 51,616**

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)**
Total segment liabilities	**$ 35,630**	**$ 15,216**	**$ 50,846**

13 Subsequent events

a) Dividends

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

On November 8, 2018, the Board declared an eligible dividend of $0.1000 per common share of the Corporation payable on December 14, 2018 to shareholders of record on November 30, 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 closed on October 3, 2018 for total consideration of $4,700. The acquisition will be accounted for using the acquisition method, whereby the purchase consideration will be allocated to the net assets acquired.