



K·BRO

Q2, 2019

CONDENSED
CONSOLIDATED
FINANCIAL
STATEMENTS



Interim Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	June 30, 2019	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,706	\$ 2,827
Accounts receivable	36,653	33,536
Income tax receivable	3,432	3,601
Prepaid expenses and deposits	4,327	4,228
Linen in service	26,711	26,371
	74,829	70,563
Property, plant and equipment (note 4)	231,789	194,248
Intangible assets	13,533	15,682
Goodwill	40,867	41,736
	\$ 361,018	\$ 322,229
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 28,830	\$ 34,682
Lease liabilities (note 3)	8,607	-
Income taxes payable	126	-
Dividends payable to shareholders	1,060	1,056
	38,623	35,738
Long-term debt (note 5)	75,952	70,203
Lease liabilities (note 3)	39,208	2,854
Provisions	2,722	2,645
Deferred income taxes	11,980	12,129
	\$ 168,485	\$ 123,569
SHAREHOLDERS' EQUITY		
Share capital	201,997	201,429
Contributed surplus	2,523	2,112
Deficit	(10,580)	(6,547)
Accumulated other comprehensive income (loss)	(1,407)	1,666
	\$ 192,533	\$ 198,660
Contingencies and commitments (note 6)	\$ 361,018	\$ 322,229

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,	
	2019	2018	2019	2018
Revenue	\$ 63,893	\$ 60,738	\$ 121,676	\$ 116,122
Expenses				
Wages and benefits	24,874	24,742	48,254	48,089
Linen	6,931	6,797	13,378	13,215
Utilities	4,008	3,493	8,351	7,028
Delivery	7,182	7,404	14,163	14,800
Occupancy costs	1,130	2,486	2,224	4,753
Materials and supplies	1,934	2,031	3,694	3,984
Repairs and maintenance	2,214	2,292	4,271	4,112
Corporate	2,879	3,039	5,485	5,487
Loss on disposal of property, plant and equipment	2	2	2	2
	51,154	52,286	99,822	101,470
EBITDA	12,739	8,452	21,854	14,652
Other expenses				
Depreciation of property, plant and equipment (note 4)	6,203	3,565	12,338	7,016
Amortization of intangible assets	776	706	1,557	1,538
Finance expense	1,566	716	3,079	1,592
	8,545	4,987	16,974	10,146
Earnings before income taxes	4,194	3,465	4,880	4,506
Current income tax expense	160	385	183	353
Deferred income tax expense	487	496	655	922
Income tax expense	647	881	838	1,275
Net earnings	\$ 3,547	\$ 2,584	\$ 4,042	\$ 3,231
Other comprehensive income (loss)				
Items that may be subsequently reclassified to earnings:				
Foreign currency translation differences on foreign operations	(2,995)	(2,882)	(3,073)	1,531
Total comprehensive income (loss)	\$ 552	\$ (298)	\$ 969	\$ 4,762
Net earnings per share:				
Basic	\$ 0.34	\$ 0.25	\$ 0.38	\$ 0.31
Diluted	\$ 0.34	\$ 0.25	\$ 0.38	\$ 0.31
Weighted average number of shares outstanding:				
Basic	10,503,674	10,462,213	10,500,151	10,457,941
Diluted	10,557,643	10,508,644	10,545,951	10,496,023

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
As at December 31, 2018	\$ 201,429	\$ 2,112	\$ (6,547)	\$ 1,666	\$ 198,660
Change in accounting policy (note 3)	-	-	(1,730)	-	(1,730)
Restated total equity at January 1, 2019	201,429	2,112	(8,277)	1,666	196,930
Total comprehensive income (loss)	-	-	4,042	(3,073)	969
Dividends declared (note 7)	-	-	(6,345)	-	(6,345)
Employee share based compensation expense	-	979	-	-	979
Shares vested during the period	568	(568)	-	-	-
As at June 30, 2019	\$ 201,997	\$ 2,523	\$ (10,580)	\$ (1,407)	\$ 192,533

	Total Share Capital	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total equity
As at January 1, 2018	\$ 199,772	1,952	(65)	(72)	\$ 201,587
Total comprehensive income (loss)	-	-	3,231	1,531	4,762
Dividends declared (note 7)	-	-	(6,315)	-	(6,315)
Employee share based compensation expense	-	1,034	-	-	1,034
Shares vested during the period	562	(562)	-	-	-
As at June 30, 2018	\$ 200,334	\$ 2,424	\$ (3,149)	\$ 1,459	\$ 201,068

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,	
	2019	2018	2019	2018
OPERATING ACTIVITIES				
Net earnings	\$ 3,547	\$ 2,584	\$ 4,042	\$ 3,231
Depreciation of property, plant and equipment (note 4)	6,203	3,565	12,338	7,016
Amortization of intangible assets	776	706	1,557	1,538
Lease inducements, net of amortization	-	7	-	263
Accretion expense	36	13	103	88
Employee share based compensation expense	439	625	979	1,034
Loss on disposal of property, plant and equipment	2	2	2	2
Settlement of provision	-	(460)	-	(460)
Deferred income taxes	487	496	655	922
	11,490	7,538	19,676	13,634
Change in non-cash working capital items (note 8)	(8,615)	(12,167)	(7,131)	(13,638)
Cash provided by (used in) operating activities	2,875	(4,629)	12,545	(4)
FINANCING ACTIVITIES				
Net proceeds of revolving debt	8,508	14,149	5,749	27,725
Principal elements of lease payments (note 3)	(1,736)	-	(3,384)	-
Dividends paid to shareholders	(3,172)	(3,157)	(6,340)	(6,310)
Cash provided (used in) by financing activities	3,600	10,992	(3,975)	21,415
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(5,159)	(7,537)	(7,531)	(24,749)
Proceeds from disposal of property, plant and equipment	1	6	1	6
Purchase of intangible assets	-	(106)	-	(106)
Cash used in investing activities	(5,158)	(7,637)	(7,530)	(24,849)
Change in cash and cash equivalents during the period	1,317	(1,274)	1,040	(3,438)
Effect of exchange rate changes on cash and cash equivalents	(159)	(386)	(161)	312
Cash and cash equivalents, beginning of period	2,548	9,810	2,827	11,276
Cash and cash equivalents, end of period	\$ 3,706	\$ 8,150	\$ 3,706	\$ 8,150
Supplementary cash flow information				
Interest paid	\$ 1,439	\$ 676	\$ 2,823	\$ 1,245
Income taxes paid	\$ -	\$ 1,668	\$ -	\$ 2,806

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, 2019 and 2018)

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 in the UK 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 five cities, in Scotland and the North East of England with facilities in Cupar, Perth, Newcastle, Livingston 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 7, 2019.

1 Basis of Presentation

These unaudited Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as published in the CPA Canada Handbook (IFRS), 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, 2018 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, 2019

New or amended standards became applicable for the current reporting period, and the Corporation had to change its accounting policies and make retrospective adjustments as a result of adopting IFRS 16 Leases.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in note 3 below. The other standards did not have any impact on the Corporation's accounting policies and did not require retrospective adjustments.

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, 2019 and 2018)

3 Adoption of new accounting standards

This note explains the impact of the adoption of IFRS 16 Leases on the Corporation's financial statements and discloses the new accounting policies that have been applied from January 1, 2019 in note 3(b) below.

The Corporation has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on January 1, 2019.

a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Corporation recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The average lessee's incremental borrowing rate applied to the Corporation's lease liabilities on January 1, 2019 for the Canadian division were 4.0% to 4.7%, and for the UK division were 3.7% to 3.8%.

	2019
Operating lease commitments disclosed as at December 31, 2018	\$ 61,188
Discounted using the lessee's incremental borrowing rate of at the date of initial application	\$ 51,861
Less: short-term leases recognised on a straight-line basis as expense	(57)
Less: low-value leases recognised on a straight-line basis as expense	(111)
Lease liability recognised as at January 1, 2019	\$ 51,693
Of which are:	
Current lease liabilities	\$ 8,921
Non-current lease liabilities	42,772
	\$ 51,693

The associated right-of-use assets for building leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at December 31, 2018. There were no material onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	June 30, 2019	January 1, 2019
Buildings	\$ 35,869	\$38,141
Vehicles	6,376	8,129
Total right-of-use assets	\$ 42,245	\$46,270

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, 2019 and 2018)

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

- right-of-use assets – increased by \$46,270
- deferred tax assets – increased by \$668
- lease liabilities:
 - lease liabilities increased by \$51,693
 - unamortized lease inducements decreased by \$2,854
 - current portion of unamortized lease inducements decreased by \$171

The net impact on retained earnings on January 1, 2019 was a decrease of \$1,730.

(i) Impact on segment disclosures and earnings per share

Segment EBITDA, segment assets and segment liabilities for June 30, 2019 all increased as a result of the change in accounting policy. The following segments were affected by the change in policy:

	Segment EBITDA	Segment assets	Segment liabilities
Canadian Division	\$ 2,839	\$ 30,615	\$ 32,687
UK Division	1,724	11,630	11,494
	\$ 4,563	\$ 42,245	\$ 44,181

Basic and diluted earnings per share for the six months ended June 30, 2019 decreased by \$0.01 as a result of the adoption of IFRS 16.

(ii) Practical expedients applied

In applying IFRS 16 for the first time, the Corporation has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- reliance on previous assessments on whether leases are onerous,
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases,
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Corporation has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Corporation relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

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, 2019 and 2018)

b) The Corporation's leasing activities and how these are accounted for

The Corporation leases various buildings, vehicles and equipment. Rental contracts are typically made for fixed periods of one to fifteen years but may have extension options as described in (ii) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Corporation. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees, and
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are comprised of IT-equipment and small items of office furniture.

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, 2019 and 2018)

(i) Variable lease payments

Based on the valuation of the Corporation's leases, no leases have been identified that are directly tied to an index or rate, and whereby an estimate would be required in determining the uncertainty arising from variable lease payments.

(ii) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Corporation. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Corporation and not by the respective lessor.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). For many of the leases the cash outflows associated with the lease extension term would be material. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

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, 2019 and 2018)

4 Property, plant and equipment

	Land	Buildings	Laundry Equipment ⁽¹⁾	Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements	Spare Parts	Total
Year ended, December 31, 2018									
Opening net book amount	\$ 4,023	\$ 20,235	\$ 113,129	\$ 245	\$ 208	\$ 371	\$ 32,750	\$ 707	\$ 171,668
Additions ⁽³⁾	-	152	20,979	273	77	979	14,318	526	37,304
Acquisition of business ⁽⁴⁾	-	-	712	-	138	81	-	-	931
Disposals	-	-	(310)	-	(23)	-	-	-	(333)
Transfers	-	(257)	-	-	-	-	257	-	-
Depreciation charge	-	(1,129)	(10,654)	(132)	(76)	(473)	(3,407)	-	(15,871)
Effect of movement in exchange rates	44	108	396	1	-	-	-	-	549
Closing net book amount	\$ 4,067	\$ 19,109	\$ 124,252	\$ 387	\$ 324	\$ 958	\$ 43,918	\$ 1,233	\$ 194,248
At December 31, 2018									
Cost	\$ 4,067	\$ 22,980	\$ 179,727	\$ 975	\$ 872	\$ 2,755	\$ 59,679	\$ 1,233	\$ 272,288
Accumulated depreciation	-	(3,871)	(55,475)	(588)	(548)	(1,797)	(15,761)	-	(78,040)
Net book amount	\$ 4,067	\$ 19,109	\$ 124,252	\$ 387	\$ 324	\$ 958	\$ 43,918	\$ 1,233	\$ 194,248
Period ended, June 30, 2019									
Opening net book amount	\$ 4,067	\$ 19,109	\$ 124,252	\$ 387	\$ 324	\$ 958	\$ 43,918	\$ 1,233	\$ 194,248
Additions ⁽³⁾⁽⁵⁾	-	38,221	3,752	14	8,225	163	284	653	51,312
Disposals	-	-	(3)	-	-	-	-	-	(3)
Depreciation charge	-	(3,204)	(5,721)	(72)	(1,132)	(284)	(1,925)	-	(12,338)
Effect of movement in exchange rates	(75)	(441)	(734)	(5)	(165)	-	(10)	-	(1,430)
Closing net book amount	\$ 3,992	\$ 53,685	\$ 121,546	\$ 324	\$ 7,252	\$ 837	\$ 42,267	\$ 1,886	\$ 231,789
At June 30, 2019									
Cost	\$ 3,992	\$ 60,711	\$ 182,544	\$ 983	\$ 8,914	\$ 2,918	\$ 59,951	\$ 1,886	\$ 321,899
Accumulated depreciation	-	(7,026)	(60,998)	(659)	(1,662)	(2,081)	(17,684)	-	(90,110)
Net book amount	\$ 3,992	\$ 53,685	\$ 121,546	\$ 324	\$ 7,252	\$ 837	\$ 42,267	\$ 1,886	\$ 231,789

- (1) Included in laundry equipment are assets under development in the amount of \$868 (2018 - \$1,582). These assets are not available for service and accordingly are not presently being depreciated.
- (2) Total property, plant and equipment additions include amounts in accounts payable of \$3,461 (2018 - \$6,126).
- (3) Additions include amounts from the Canadian Division of \$35,083 (2018 - \$34,421) and from the UK Division of \$16,229 (2018 - \$2,883).
- (4) Includes amounts related to property, plant and equipment assets of the acquired business which are included in the reportable segment for the Canadian division.
- (5) Additions include assets related to the change in accounting policy as disclosed in note 3 in the amount of \$38,141 in buildings and \$8,129 in delivery equipment.

5 Long-term debt

	Prime Rate Loan ⁽¹⁾
At January 1, 2018	\$ 42,780
Net proceeds from debt	27,423
Closing balance at December 31, 2018	\$ 70,203
At January 1, 2019	\$ 70,203
Net proceeds from debt	5,749
Closing balance at June 30, 2019	\$ 75,952

- (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, 2022 (December 31, 2018 - 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, 2019, the combined interest rate was 4.7% (December 31, 2018 - 4.7%).

During the period, the Corporation completed an amendment to its existing revolving credit facility, which extended the agreement to July 31, 2022 and made changes to the definitions within the agreement to clarify that all financial covenants would be tested on a pre-IFRS 16 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, 2019 and 2018)

The Corporation has a revolving credit facility of up to \$100,000 plus a \$25,000 accordion of which \$77,102 is utilized (including letters of credit totaling \$1,150 as at June 30, 2019). 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 or 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.

6 Contingencies and commitments

a) Contingencies

The Corporation has standby letters of credit issued as part of normal business operations in the amount of \$1,150 (December 31, 2018 – \$1,150) 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 and contractual obligations

(iii) Lease liabilities and utility commitments

The Corporation was committed to minimum lease payments for leases on buildings and equipment and estimated natural gas and electricity commitments for the next five calendar years and thereafter are as follows:

Lease liabilities	
Remainder of 2019	\$ 4,431
2020	7,725
2021	6,747
2022	6,082
2023	5,113
Subsequent	34,935
	\$ 65,033

The lease liabilities reflected above are accounted for on the statement of financial position as lease liabilities at their net present value for are reflected at their gross values in the table above.

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, 2019 and 2018)

Utility commitments

Remainder of 2019	\$	3,765
2020		2,844
2021		1,378
2022		-
2023		-
Subsequent		-
	\$	7,987

(i) Linen purchase commitments

At June 30, 2019, the Corporation was committed to linen expenditure obligations in the amount of \$3,941 (December 31, 2018 – \$9,314) to be incurred within the next year.

(ii) Property, plant and equipment commitments

At June 30, 2019, the Corporation was committed to capital expenditure obligations in the amount of \$166 (December 31, 2018 – \$1,622) to be incurred within the next year.

7 Dividends to shareholders

During the three months ended June 30, 2019, the Corporation declared total dividends to shareholders of \$3,177 or \$0.300 per share (2018 - \$3,163 or \$0.300 per share). During the six months ended June 30, 2019, the Corporation declared total dividends to shareholders of \$6,345 or \$0.600 per share (2017 - \$6,315 or \$0.600 per share).

8 Net change in non-cash working capital items

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Accounts receivable	\$ (7,150)	\$ (4,850)	\$ (3,631)	\$ (4,458)
Linen in service	(624)	(1,881)	(853)	(3,357)
Prepaid expenses and deposits	619	(496)	(213)	(820)
Accounts payable and accrued liabilities ⁽¹⁾	(1,494)	(3,657)	(2,734)	(2,553)
Income taxes payable / receivable	34	(1,283)	300	(2,450)
	\$ (8,615)	\$ (12,167)	\$ (7,131)	\$ (13,638)

(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 \$-2,665 (2018 - \$-4,021).

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, 2019 and 2018)

9 Financial instruments

The Corporation's financial instruments at June 30, 2019 and December 31, 2018 consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, dividends payable to shareholders, lease liabilities, and long term debt. The carrying value of accounts receivable, accounts payable and accrued liabilities, and dividends payable to shareholders approximate fair value due to the immediate or short-term maturity of these financial instruments. The fair value of the Corporation's interest-bearing debt approximates the respective carrying amount due to the floating rate nature of the debt.

10 Related party transactions

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by a Director. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms. For the three months ended June 30, 2019, the Corporation incurred such fees totaling \$35 (2018- \$35). For the six months ended June 30, 2019, the Corporation incurred such fees totaling \$69 (2018- \$69).

11 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 six sites which are located in Cupar, Perth, Newcastle, Livingston 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.

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, 2019 and 2018)

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, 2020, 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, 2019, from these four major customers the Corporation has recorded revenue of \$50,860 (2018 – \$48,776), representing 41.8% (2018 – 42.0%) of total revenue.

	Six Months Ended June 30, 2019		Six Months Ended June 30, 2018	
Healthcare	\$ 65,557	53.9%	\$ 64,203	55.2%
Hospitality	25,575	21.0%	23,747	20.5%
Canadian division	\$ 91,132	74.9%	\$ 87,950	75.7%
Healthcare	\$ 3,275	2.7%	\$ 3,262	2.8%
Hospitality	27,269	22.4%	24,910	21.5%
UK division	\$ 30,544	25.1%	\$ 28,172	24.3%
Total segment revenue	\$ 121,676	100.0%	\$ 116,122	100.0%

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, 2019 and 2018)

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. See note 3 for details about the impact of the change in accounting policy on the current period segment disclosures.

Six Months Ended June 30, 2019	Canadian division	UK division	Total
Net earnings	\$ 3,134	\$ 908	\$ 4,042
EBITDA	\$ 16,683	\$ 5,171	\$ 21,854

Six Months Ended June 30, 2018	Canadian division	UK division	Total
Net earnings	\$ 2,469	\$ 762	\$ 3,231
EBITDA	\$ 11,418	\$ 3,234	\$ 14,652

The Canadian division net earnings includes non-cash employee share based compensation expense of \$979 (2018 – \$1,034).

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, 2019 and 2018)

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. See note 3 for details about the impact of the change in accounting policy on the current period segment disclosures.

At June 30, 2019	Canadian division	UK division	Total
Total assets	\$ 271,817	\$ 89,201	\$ 361,018
Other:			
Cash and cash equivalents	-	(3,706)	(3,706)
Total segment assets	\$ 271,817	\$ 85,495	\$ 357,312

At December 31, 2018	Canadian division	UK division	Total
Total assets	\$ 244,768	\$ 77,461	\$ 322,229
Other:			
Cash and cash equivalents	-	(2,827)	(2,827)
Intercompany loans	-	-	-
Total segment assets	\$ 244,768	\$ 74,634	\$ 319,402

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, 2019 and 2018)

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. See note 3 for details about the impact of the change in accounting policy on the current period segment disclosures.

At June 30, 2019	Canadian division	UK division	Total
Total liabilities	\$ 142,317	\$ 26,168	\$ 168,485
Other:			
Long-term debt (note 5)	(75,952)	-	(75,952)
Total segment liabilities	\$ 66,365	\$ 26,168	\$ 92,533

At December 31, 2018	Canadian division	UK division	Total
Total liabilities	\$ 111,044	\$ 12,525	\$ 123,569
Other:			
Long-term debt (note 5)	(70,203)	-	(70,203)
Total segment liabilities	\$ 40,841	\$ 12,525	\$ 53,366

12 Subsequent events

a) Dividends

On July 15 2019, the Board declared an eligible dividend of \$0.1000 per common share of the Corporation payable on August 15, 2019 to shareholders of record on July 31, 2019.

On August 7, 2019, the Board declared an eligible dividend of \$0.1000 per common share of the Corporation payable on September 13, 2019 to shareholders of record on August 31, 2019.

b) Acquisition

On July 19, 2019, the Corporation signed a share purchase agreement to acquire all the assets of a private laundry and linen services company incorporated in Scotland and operating in Aberdeen. The acquisition is expected to close on September 14, 2019 for a total consideration of £775 Sterling plus a working capital adjustment.