



K·BRO

Q3, 2019

CONDENSED  
CONSOLIDATED  
FINANCIAL  
STATEMENTS



# Interim Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	September 30, 2019	December 31, 2018
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,362	\$ 2,827
Accounts receivable	37,112	33,536
Income tax receivable	-	3,601
Prepaid expenses and deposits	3,646	4,228
Linen in service	25,810	26,371
	70,930	70,563
<b>Property, plant and equipment (note 4)</b>	227,623	194,248
<b>Intangible assets</b>	13,956	15,682
<b>Goodwill</b>	40,512	41,736
	\$ 353,021	\$ 322,229
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 29,532	\$ 34,682
Lease liabilities (note 3)	8,891	-
Income taxes payable	1,252	-
Dividends payable to shareholders	1,060	1,056
	40,735	35,738
<b>Long-term debt (note 5)</b>	66,070	70,203
<b>Lease liabilities (note 3)</b>	38,189	2,854
<b>Provisions</b>	2,741	2,645
<b>Deferred income taxes</b>	12,102	12,129
	\$ 159,837	\$ 123,569
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b>	201,997	201,429
<b>Contributed surplus</b>	2,950	2,112
<b>Deficit</b>	(9,092)	(6,547)
<b>Accumulated other comprehensive income (loss)</b>	(2,671)	1,666
	\$ 193,184	\$ 198,660
<b>Contingencies and commitments (note 6)</b>	\$ 353,021	\$ 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Revenue</b>	\$ 67,842	\$ 63,972	\$ 189,518	\$ 180,094
<b>Expenses</b>				
Wages and benefits	26,605	27,174	74,859	75,263
Linen	7,121	6,737	20,499	19,952
Utilities	4,105	3,853	12,456	10,881
Delivery	7,107	8,003	21,270	22,803
Occupancy costs	1,090	2,709	3,314	7,462
Materials and supplies	2,331	2,414	6,025	6,398
Repairs and maintenance	2,220	2,146	6,491	6,258
Corporate	2,656	2,730	8,141	8,217
Gain on disposal of property, plant and equipment	(10)	(104)	(8)	(102)
	53,225	55,662	153,047	157,132
<b>EBITDA</b>	14,617	8,310	36,471	22,962
<b>Other expenses</b>				
Depreciation of property, plant and equipment (note 4)	6,314	4,371	18,652	11,387
Amortization of intangible assets	745	698	2,302	2,236
Finance expense	1,510	857	4,589	2,449
	8,569	5,926	25,543	16,072
<b>Earnings before income taxes</b>	6,048	2,384	10,928	6,890
Current income tax expense (recovery)	1,201	(820)	1,384	(467)
Deferred income tax expense	178	1,318	833	2,240
<b>Income tax expense</b>	1,379	498	2,217	1,773
<b>Net earnings</b>	\$ 4,669	\$ 1,886	\$ 8,711	\$ 5,117
<b>Other comprehensive income</b>				
Items that may be subsequently reclassified to earnings:				
Foreign currency translation differences on foreign operations	(1,264)	(1,882)	(4,337)	(351)
<b>Total comprehensive income (loss)</b>	\$ 3,405	\$ 4	\$ 4,374	\$ 4,766
<b>Net earnings per share:</b>				
Basic	\$ 0.44	\$ 0.18	\$ 0.83	\$ 0.49
Diluted	\$ 0.44	\$ 0.18	\$ 0.82	\$ 0.49
<b>Weighted average number of shares outstanding:</b>				
Basic	10,510,915	10,470,255	10,503,778	10,462,091
Diluted	10,584,300	10,540,278	10,561,812	10,513,782

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 December 31, 2018</b>	\$ 201,429	\$ 2,112	\$ (6,547)	\$ 1,666	\$ 198,660
Change in accounting policy (note 3)	-	-	(1,730)	-	(1,730)
<b>Restated total equity at January 1, 2019</b>	201,429	2,112	(8,277)	1,666	196,930
Total comprehensive income (loss)	-	-	8,711	(4,337)	4,374
Dividends declared (note 7)	-	-	(9,526)	-	(9,526)
Employee share based compensation expense	-	1,406	-	-	1,406
Shares vested during the period	568	(568)	-	-	-
<b>As at September 30, 2019</b>	\$ 201,997	\$ 2,950	\$ (9,092)	\$ (2,671)	\$ 193,184

	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 (loss)	-	-	5,117	(351)	4,766
Dividends declared (note 7)	-	-	(9,483)	-	(9,483)
Employee share based compensation expense	-	1,437	-	-	1,437
Shares vested during the period	562	(562)	-	-	-
<b>As at September 30, 2018</b>	\$ 200,334	\$ 2,827	\$ (4,431)	\$ (423)	\$ 198,307

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,	
	2019	2018	2019	2018
<b>OPERATING ACTIVITIES</b>				
<b>Net earnings</b>	\$ 4,669	\$ 1,886	\$ 8,711	\$ 5,117
Depreciation of property, plant and equipment (note 4)	6,314	4,371	18,652	11,387
Amortization of intangible assets	745	698	2,302	2,236
Lease inducements, net of amortization	-	10	-	273
Accretion expense	30	1	133	89
Employee share based compensation expense	427	403	1,406	1,437
Gain on disposal of property, plant and equipment	(10)	(104)	(8)	(102)
Settlement of provision	-	-	-	(460)
Deferred income taxes	178	1,318	833	2,240
	<b>12,353</b>	<b>8,583</b>	<b>32,029</b>	<b>22,217</b>
Change in non-cash working capital items (note 8)	7,463	1,176	332	(12,462)
Cash provided by operating activities	<b>19,816</b>	<b>9,759</b>	<b>32,361</b>	<b>9,755</b>
<b>FINANCING ACTIVITIES</b>				
Net (repayment) proceeds of revolving debt	(9,882)	(3,460)	(4,133)	24,265
Principal elements of lease payments (note 3)	(1,806)	-	(5,190)	-
Dividends paid to shareholders	(3,182)	(3,168)	(9,522)	(9,478)
Cash provided (used in) by financing activities	<b>(14,870)</b>	<b>(6,628)</b>	<b>(18,845)</b>	<b>14,787</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	(2,850)	(8,312)	(10,381)	(33,061)
Proceeds from disposal of property, plant and equipment	50	182	51	188
Purchase of intangible assets	(1,521)	-	(1,521)	(106)
Cash used in investing activities	<b>(4,321)</b>	<b>(8,130)</b>	<b>(11,851)</b>	<b>(32,979)</b>
Change in cash and cash equivalents during the period	625	(4,999)	1,665	(8,437)
Effect of exchange rate changes on cash and cash equivalents	31	(250)	(130)	62
Cash and cash equivalents, beginning of period	3,706	8,150	2,827	11,276
Cash and cash equivalents, end of period	\$ 4,362	\$ 2,901	\$ 4,362	\$ 2,901
<b>Supplementary cash flow information</b>				
Interest paid	\$ 1,388	\$ 787	\$ 4,211	\$ 2,032
Income taxes paid	\$ 112	\$ (1,654)	\$ 112	\$ 1,152

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 nine months ended September 30, 2019 and 2018)

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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 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 November 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 nine months ended September 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%.

	<b>2019</b>
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)
<b>Lease liability recognised as at January 1, 2019</b>	<b>\$ 51,693</b>
<b>Of which are:</b>	
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:

	<b>September 30, 2019</b>	<b>January 1, 2019</b>
Buildings	\$ 35,099	\$38,141
Vehicles	6,332	8,129
<b>Total right-of-use assets</b>	<b>\$ 41,431</b>	<b>\$46,270</b>

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and nine months ended September 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 September 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	\$ 4,337	\$ 30,293	\$ 32,401
UK Division	2,557	11,138	11,052
	<b>\$ 6,894</b>	<b>\$ 41,431</b>	<b>\$ 43,453</b>

Basic and diluted earnings per share for the nine months ended September 30, 2019 decreased by \$-0.02 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 nine months ended September 30, 2019 and 2018)

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## **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 nine months ended September 30, 2019 and 2018)

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## **(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 nine months ended September 30, 2019 and 2018)

## 4 Property, plant and equipment

	Land	Buildings	Laundry Equipment <sup>(1)</sup>	Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements	Spare Parts	Total
<b>Year ended, December 31, 2018</b>									
Opening net book amount	\$ 4,023	\$ 20,235	\$ 113,129	\$ 245	\$ 208	\$ 371	\$ 32,750	\$ 707	\$ 171,668
Additions <sup>(3)</sup>	-	152	20,979	273	77	979	14,318	526	37,304
Acquisition of business <sup>(4)</sup>	-	-	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
<b>Closing net book amount</b>	<b>\$ 4,067</b>	<b>\$ 19,109</b>	<b>\$ 124,252</b>	<b>\$ 387</b>	<b>\$ 324</b>	<b>\$ 958</b>	<b>\$ 43,918</b>	<b>\$ 1,233</b>	<b>\$ 194,248</b>
<b>At December 31, 2018</b>									
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)
<b>Net book amount</b>	<b>\$ 4,067</b>	<b>\$ 19,109</b>	<b>\$ 124,252</b>	<b>\$ 387</b>	<b>\$ 324</b>	<b>\$ 958</b>	<b>\$ 43,918</b>	<b>\$ 1,233</b>	<b>\$ 194,248</b>
<b>Period ended, September 30, 2019</b>									
Opening net book amount	\$ 4,067	\$ 19,109	\$ 124,252	\$ 387	\$ 324	\$ 958	\$ 43,918	\$ 1,233	\$ 194,248
Additions <sup>(3)(5)</sup>	-	38,508	5,312	15	9,070	271	130	588	53,894
Disposals	-	-	(5)	-	(38)	-	-	-	(43)
Depreciation charge	-	(4,787)	(8,665)	(108)	(1,748)	(425)	(2,919)	-	(18,652)
Effect of movement in exchange rates	(106)	(511)	(1,026)	(6)	(162)	-	(13)	-	(1,824)
<b>Closing net book amount</b>	<b>\$ 3,961</b>	<b>\$ 52,319</b>	<b>\$ 119,868</b>	<b>\$ 288</b>	<b>\$ 7,446</b>	<b>\$ 804</b>	<b>\$ 41,116</b>	<b>\$ 1,821</b>	<b>\$ 227,623</b>
<b>At September 30, 2019</b>									
Cost	\$ 3,961	\$ 60,904	\$ 183,768	\$ 981	\$ 9,722	\$ 3,026	\$ 59,792	\$ 1,821	\$ 323,975
Accumulated depreciation	-	(8,585)	(63,900)	(693)	(2,276)	(2,222)	(18,676)	-	(96,352)
<b>Net book amount</b>	<b>\$ 3,961</b>	<b>\$ 52,319</b>	<b>\$ 119,868</b>	<b>\$ 288</b>	<b>\$ 7,446</b>	<b>\$ 804</b>	<b>\$ 41,116</b>	<b>\$ 1,821</b>	<b>\$ 227,623</b>

- (1) Included in laundry equipment are assets under development in the amount of \$1,121 (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 \$2,137 (2018 - \$6,126).
- (3) Additions include amounts from the Canadian Division of \$36,479 (2018 - \$34,421) and from the UK Division of \$17,415 (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 <sup>(1)</sup>
At January 1, 2018	\$ 42,780
Net proceeds from debt	27,423
<b>Closing balance at December 31, 2018</b>	<b>\$ 70,203</b>
At January 1, 2019	\$ 70,203
Net repayment of debt	(4,133)
<b>Closing balance at September 30, 2019</b>	<b>\$ 66,070</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, 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 September 30, 2019, the combined interest rate was 4.5% (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 nine months ended September 30, 2019 and 2018)

The Corporation has a revolving credit facility of up to \$100,000 plus a \$25,000 accordion of which \$67,220 is utilized (including letters of credit totaling \$1,150 as at September 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	\$ 2,197
2020	7,757
2021	6,758
2022	6,085
2023	5,116
Subsequent	34,742
	<b>\$ 62,655</b>

The lease liabilities in the table above reflect the gross values that will be settled through monthly lease payments in comparison to the amounts reflected on the statement of financial position which represent their net present value.

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and nine months ended September 30, 2019 and 2018)

## Utility commitments

Remainder of 2019	\$ 1,693
2020	2,821
2021	1,378
2022	-
2023	-
Subsequent	-
	\$ 5,892

### (i) Linen purchase commitments

At September 30, 2019, the Corporation was committed to linen expenditure obligations in the amount of \$4,686 (December 31, 2018 – \$9,314) to be incurred within the next year.

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

At September 30, 2019, the Corporation was committed to capital expenditure obligations in the amount of \$0 (December 31, 2018 – \$1,622) to be incurred within the next year.

## 7 Dividends to shareholders

During the three months ended September 30, 2019, the Corporation declared total dividends to shareholders of \$3,181 or \$0.300 per share (2018 - \$3,168 or \$0.300 per share). During the nine months ended September 30, 2019, the Corporation declared total dividends to shareholders of \$9,526 or \$0.900 per share (2018 - \$9,483 or \$0.900 per share).

## 8 Net change in non-cash working capital items

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Accounts receivable	\$ (692)	\$ (1,255)	\$ (4,323)	\$ (5,713)
Linen in service	708	(1,163)	(145)	(4,520)
Prepaid expenses and deposits	651	461	438	(359)
Accounts payable and accrued liabilities <sup>(1)</sup>	2,231	2,295	(503)	(258)
Income taxes payable / receivable	4,565	838	4,865	(1,612)
	\$ 7,463	\$ 1,176	\$ 332	\$ (12,462)

(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 \$-3,989 (2018 - \$-1,158).

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and nine months ended September 30, 2019 and 2018)

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## 9 Financial instruments

The Corporation's financial instruments at September 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 September 30, 2019, the Corporation incurred such fees totaling \$35 (2018– \$35). For the nine months ended September 30, 2019, the Corporation incurred such fees totaling \$104 (2018– \$104).

## 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. In addition, 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 nine months ended September 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 nine months ended September 30, 2019, from these four major customers the Corporation has recorded revenue of \$76,404 (2018 – \$73,531), representing 40.3% (2018 – 40.8%) of total revenue.

	Nine Months Ended September 30, 2019		Nine Months Ended September 30, 2018	
Healthcare	\$ 98,781	52.1%	\$ 96,021	53.3%
Hospitality	41,842	22.1%	38,801	21.5%
<b>Canadian division</b>	<b>\$ 140,623</b>	<b>74.2%</b>	<b>\$ 134,822</b>	<b>74.8%</b>
Healthcare	\$ 4,761	2.5%	\$ 4,822	2.7%
Hospitality	44,134	23.3%	40,450	22.5%
<b>UK division</b>	<b>\$ 48,895</b>	<b>25.8%</b>	<b>\$ 45,272</b>	<b>25.2%</b>
<b>Total segment revenue</b>	<b>\$ 189,518</b>	<b>100.0%</b>	<b>\$ 180,094</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 nine months ended September 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.

<b>Nine Months Ended September 30, 2019</b>	<b>Canadian division</b>	<b>UK division</b>	<b>Total</b>
Net earnings	\$ 6,027	\$ 2,684	\$ 8,711
EBITDA	\$ 27,106	\$ 9,365	\$ 36,471

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

The Canadian division net earnings includes non-cash employee share based compensation expense of \$1,406 (2018 – \$1,437).



# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and nine months ended September 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.

<b>At September 30, 2019</b>	<b>Canadian division</b>	<b>UK division</b>	<b>Total</b>
Total assets	\$ 263,353	\$ 89,668	\$ 353,021
Other:			
Cash and cash equivalents	-	(4,362)	(4,362)
<b>Total segment assets</b>	<b>\$ 263,353</b>	<b>\$ 85,306</b>	<b>\$ 348,659</b>

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

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and nine months ended September 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 September 30, 2019	Canadian division	UK division	Total
Total liabilities	\$ 133,779	\$ 26,058	\$ 159,837
Other:			
Long-term debt (note 5)	(66,070)	-	(66,070)
<b>Total segment liabilities</b>	<b>\$ 67,709</b>	<b>\$ 26,058</b>	<b>\$ 93,767</b>

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)
<b>Total segment liabilities</b>	<b>\$ 40,841</b>	<b>\$ 12,525</b>	<b>\$ 53,366</b>

## 12 Subsequent events

### a) Dividends

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

On November 7, 2019, the Board declared an eligible dividend of \$0.1000 per common share of the Corporation payable on December 13, 2019 to shareholders of record on November 30, 2019.