



K·BRO

**CONDENSED
CONSOLIDATED
FINANCIAL
STATEMENTS**



Q3, 2020



Interim Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	September 30, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 998	\$ 5,301
Accounts receivable	42,303	34,900
Income tax receivable	1,288	-
Prepaid expenses and deposits	3,634	4,334
Linen in service	30,573	26,039
	78,796	70,574
Property, plant and equipment (note 4)	210,657	226,332
Intangible assets	10,835	13,699
Goodwill (note 12)	38,303	41,454
	\$ 338,591	\$ 352,059
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 24,941	\$ 28,689
Provisions (note 6)	1,023	-
Lease liabilities (note 2)	7,464	8,297
Income taxes payable	1,241	1,507
Dividends payable to shareholders	1,068	1,060
	35,737	39,553
Long-term debt (note 5)	59,325	62,494
Lease liabilities (note 2)	36,469	38,531
Provisions	2,909	2,838
Deferred income taxes	14,575	12,592
	\$ 149,015	\$ 156,008
SHAREHOLDERS' EQUITY		
Share capital	203,693	203,110
Contributed surplus	3,047	2,241
Deficit	(18,011)	(10,078)
Accumulated other comprehensive income	847	778
	\$ 189,576	\$ 196,051
Contingencies and commitments (note 6)	\$ 338,591	\$ 352,059

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,	
	2020	2019	2020	2019
Revenue	\$ 51,439	\$ 67,842	\$ 146,234	\$ 189,518
Expenses				
Wages and benefits (notes 2 and 6)	16,963	26,605	50,732	74,859
Linen	6,371	7,121	18,272	20,499
Utilities	2,849	4,105	8,534	12,456
Delivery (notes 2 and 6)	5,128	7,107	15,671	21,270
Occupancy costs (note 2)	941	1,090	2,601	3,314
Materials and supplies	1,891	2,331	5,249	6,025
Repairs and maintenance	1,804	2,220	5,369	6,491
Corporate (notes 2 and 6)	2,773	2,656	7,778	8,141
Gain on disposal of property, plant and equipment	-	(10)	(5)	(8)
Impairment of assets (note 12)	-	-	5,516	-
	38,720	53,225	119,717	153,047
EBITDA (note 12)	12,719	14,617	26,517	36,471
Other expenses				
Depreciation of property, plant and equipment (note 4)	5,885	6,314	17,891	18,652
Amortization of intangible assets	955	745	2,883	2,302
Finance expense	1,141	1,510	3,125	4,589
	7,981	8,569	23,899	25,543
Earnings before income taxes	4,738	6,048	2,618	10,928
Current income tax (recovery) expense	(924)	1,201	(1,007)	1,384
Deferred income tax expense	2,220	178	1,978	833
Income tax expense	1,296	1,379	971	2,217
Net earnings	\$ 3,442	\$ 4,669	\$ 1,647	\$ 8,711
Other comprehensive income				
Items that may be subsequently reclassified to earnings:				
Foreign currency translation differences on foreign operations	1,334	(1,264)	69	(4,337)
Total comprehensive income	\$ 4,776	\$ 3,405	\$ 1,716	\$ 4,374
Net earnings per share:				
Basic	\$ 0.33	\$ 0.44	\$ 0.16	\$ 0.83
Diluted	\$ 0.32	\$ 0.44	\$ 0.15	\$ 0.82
Weighted average number of shares outstanding:				
Basic	10,562,663	10,510,915	10,551,230	10,503,778
Diluted	10,666,540	10,584,300	10,631,404	10,561,812

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		Accumulated other comprehensive income		Total equity			
				Deficit						
As at December 31, 2019	\$	203,110	\$	2,241	\$	(10,078)	\$	778	\$	196,051
Total comprehensive income		-		-		1,647		69		1,716
Dividends declared (note 7)		-		-		(9,580)		-		(9,580)
Employee share based compensation expense		-		1,389		-		-		1,389
Shares vested during the period		583		(583)		-		-		-
As at September 30, 2020	\$	203,693	\$	3,047	\$	(18,011)	\$	847	\$	189,576

	Total Share Capital		Contributed surplus		Accumulated other comprehensive income (loss)		Total equity			
				Deficit						
As at December 31, 2018	\$	201,429	\$	2,112	\$	(6,547)	\$	1,666	\$	198,660
Change in accounting policy		-		-		(1,730)		-		(1,730)
Restated total equity at January 1, 2019		201,429		2,112		(8,277)		1,666		196,930
Total comprehensive income		-		-		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)		-		-		-
As at September 30, 2019	\$	201,997	\$	2,950	\$	(9,092)	\$	(2,671)	\$	193,184

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,	
	2020	2019	2020	2019
OPERATING ACTIVITIES				
Net earnings	\$ 3,442	\$ 4,669	\$ 1,647	\$ 8,711
Depreciation of property, plant and equipment (note 4)	5,885	6,314	17,891	18,652
Amortization of intangible assets	955	745	2,883	2,302
Gain on forgiveness of lease liabilities (note 2)	-	-	(464)	-
Accretion expense	25	30	177	133
Employee share based compensation expense	693	427	1,389	1,406
Gain on disposal of property, plant and equipment	-	(10)	(5)	(8)
Impairment of assets (note 12)	-	-	5,516	-
Deferred income taxes	2,220	178	1,978	833
	13,220	12,353	31,012	32,029
Change in non-cash working capital items (note 8)	(13,724)	7,463	(13,639)	332
Cash (used in) provided by operating activities	(504)	19,816	17,373	32,361
FINANCING ACTIVITIES				
Net proceeds (repayment) of revolving debt	2,909	(9,882)	(3,169)	(4,133)
Principal elements of lease payments (note 2)	(1,442)	(1,806)	(4,595)	(5,190)
Dividends paid to shareholders	(3,203)	(3,182)	(9,572)	(9,522)
Cash used in financing activities	(1,736)	(14,870)	(17,336)	(18,845)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(47)	(2,850)	(4,322)	(10,381)
Proceeds from disposal of property, plant and equipment	-	50	7	51
Purchase of intangible assets	-	(1,521)	-	(1,521)
Cash used in investing activities	(47)	(4,321)	(4,315)	(11,851)
Change in cash and cash equivalents during the period	(2,287)	625	(4,278)	1,665
Effect of exchange rate changes on cash and cash equivalents	102	31	(25)	(130)
Cash and cash equivalents, beginning of period	3,183	3,706	5,301	2,827
Cash and cash equivalents, end of period	\$ 998	\$ 4,362	\$ 998	\$ 4,362
Supplementary cash flow information				
Interest paid	\$ 950	\$ 1,388	\$ 3,029	\$ 4,211
Income taxes (recovered) paid	\$ (789)	\$ 112	\$ 548	\$ 112

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, 2020 and 2019)

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 10, 2020.

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, 2019 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.

Recent Developments and Impact on Estimation Uncertainty

The timely preparation of the consolidated interim financial statements, in conformity with IFRS, requires management of the Corporation to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and judgments have been applied in a manner consistent with prior periods.

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, 2020 and 2019)

The ongoing COVID-19 pandemic has caused world governments to institute travel restrictions both in and out of and within Canada and the UK, which has had, and is expected to continue to have, a significant adverse impact on the Corporation's hospitality business, the duration of which we are unable to predict with any degree of accuracy.

The extent of such negative effects on our hospitality business and our financial and operational performance will depend on future developments, including the duration, spread and severity of the outbreak, the duration and geographic scope of related travel advisories and restrictions and the extent of the impact of COVID-19 on overall demand for personal and business travel, all of which are highly uncertain and cannot be predicted with any degree of accuracy. As hotels continue to experience significantly reduced occupancy rates for an extended period, our 2020 consolidated results of operations will be significantly impacted. The extent to which the outbreak affects our earnings will depend on the length of time the hospitality industry continues to experience reduced occupancy rates. Earnings will continue to be particularly affected if we continue to experience further reductions in travel and reduced hospitality occupancy rates. Additionally, our suppliers or other third parties we rely upon may experience delays or shortages, which could have an adverse effect on our business prospects and results of operations.

As an ongoing risk, the duration and full financial effect of the COVID-19 pandemic continues to be uncertain at this time, however is offset through the Corporation's business continuity plan and other mitigating measures. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Corporation's operations, financial results and condition in future periods are also subject to significant uncertainty.

Based off impairment indicators that existed at March 31, 2020 as a result of the COVID-19 pandemic, management has assessed the impairment of assets based off facts and circumstances which suggest that the carrying amount in certain CGUs may exceed its recoverable amount, refer to note 12 for further detail.

Uncertainty about judgments, estimates and assumptions made by management during the preparation of the Corporation's interim condensed consolidated financial statements related to potential impacts of the COVID-19 outbreak on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

2 Updates to significant accounting policies

(a) IFRS 16 Leases – COVID-19 Related Rent Concessions

New or amended standards became applicable for the current reporting period, and the Corporation changed its accounting policies with adjustments on a prospective basis as a result of adopting the amendment to IFRS 16 Leases on June 1, 2020.

IFRS 16, Leases was amended and is effective for annual reporting periods beginning on or after June 1, 2020. The changes to IFRS 16, Leases, pertain to COVID-19 Related Rent Concessions, which:

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, 2020 and 2019)

1. provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification;
2. require lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications; require lessees that apply the exemption to disclose that fact; and
3. require lessees to apply the exemption retrospectively in accordance with IAS 8, but not require them to restate prior period figures.

The main change from the proposal in the exposure draft is that the IASB had proposed that the practical expedient should only be available for lease payments originally due in 2020. However, after having considered the feedback to the exposure draft, the IASB decided to extend this period to June 2021 to also capture rent concessions granted now and lasting for 12 months.

The Corporation has elected to apply the exemption and has treated COVID-19 rent related concessions received as if they were not lease modifications. As such, changes in lease payments that do not arise from a lease modification are accounted for as variable lease payments, in which the Corporation recognizes the variable lease payments in profit or loss in the respective period in which the event or condition that triggers those payments occurs.

For the nine month period ended September 30, 2020, a rent concession for the unconditional forgiveness of debt of \$464 was recognized as a negative variable lease payment included in the Corporation's consolidated statements of earnings and comprehensive income as an offset to occupancy costs and treated as a forgiveness of lease liabilities, with a non-cash impact to the principal elements of lease payments included in financing activities within the Corporation's consolidated statements of cash flow.

(b) Government Grants

For the nine month period ended September 30, 2020, the Corporation adopted the use of IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance, which outlines how to account for government grants and other assistance. The standard outlines that government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognizes expenses for the related costs for which the grants are intended to compensate, which in the case of grants related to assets requires setting up the grant as deferred income or deducting it from the carrying amount of the asset.

The Corporation received government assistance for both their Canadian and UK division, under the following government programs:

- i. The Canada Emergency Wage Subsidy ("CEWS") program was introduced by the Government of Canada on March 27, 2020, reimbursing eligible employers who have experienced the required reduction in revenue for a portion of salaries paid out to employees during the pandemic. During the nine months ended September 30, 2020, the Corporation submitted claims of \$7,690 under the CEWS program, with the majority of the amounts received with only \$556 outstanding in receivables on the Corporation's consolidated balance sheet at September 30, 2020. The Corporation will continue to evaluate its eligibility under the CEWS program through the balance of 2020.

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, 2020 and 2019)

- II. The Coronavirus Job Retention Scheme (“CJRS”) was introduced by the UK government on March 20, 2020, and provides eligible employers the ability to access support to continue paying part of their employees' salary for those employees that would otherwise have been laid off during the crisis. During the nine months ended September 30, 2020, the Corporation submitted claims of £2,650 (\$4,560) under the CJRS program with the majority of the amounts received with only £50 (\$87) outstanding in receivables on the Corporation's consolidated balance sheet at September 30, 2020. The Corporation will continue to evaluate its eligibility under the CJRS program through the balance of 2020.

In accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the government grants have been recognized on the Corporation's consolidated statements for the nine months ended September 30, 2020 as an offset to operating expenses of \$12,250 which includes, wages and benefits of \$9,125, delivery of \$2,044, and corporate costs of \$1,081.

3 New standards and interpretations not yet adopted

New standards, interpretations, or amendments that have been issued, or are not yet effective, have not been further described or early adopted, where no material impact is expected on the Corporation's consolidated financial statements.

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, 2019									
Opening net book amount	\$ 4,067	\$ 19,109	\$ 124,252	\$ 387	\$ 324	\$ 958	\$ 43,918	\$ 1,233	\$ 194,248
Adjustment for change in accounting policy	-	38,141	-	-	8,129	-	-	-	46,270
Restated opening net book amount	\$ 4,067	\$ 57,250	\$ 124,252	\$ 387	\$ 8,453	\$ 958	\$ 43,918	\$ 1,233	\$ 240,518
Additions ⁽²⁾⁽³⁾	-	580	7,283	69	1,551	328	423	623	10,857
Disposals	-	-	(5)	-	(38)	-	-	-	(43)
Depreciation charge	-	(5,251)	(11,635)	(146)	(3,366)	(578)	(3,729)	-	(24,705)
Effect of movement in exchange rates	(24)	(55)	(191)	(1)	(22)	-	(2)	-	(295)
Closing net book amount	\$ 4,043	\$ 52,524	\$ 119,704	\$ 309	\$ 6,578	\$ 708	\$ 40,610	\$ 1,856	\$ 226,332
At December 31, 2019									
Cost	\$ 4,043	\$ 61,656	\$ 186,714	\$ 1,043	\$ 10,513	\$ 3,083	\$ 60,099	\$ 1,856	\$ 329,007
Accumulated depreciation	-	(9,132)	(67,010)	(734)	(3,935)	(2,375)	(19,489)	-	(102,675)
Net book amount	\$ 4,043	\$ 52,524	\$ 119,704	\$ 309	\$ 6,578	\$ 708	\$ 40,610	\$ 1,856	\$ 226,332
Period ended, September 30, 2020									
Opening net book amount	\$ 4,043	\$ 52,524	\$ 119,704	\$ 309	\$ 6,578	\$ 708	\$ 40,610	\$ 1,856	\$ 226,332
Additions ⁽²⁾⁽³⁾	-	1	2,031	50	2,164	120	142	-	4,508
Disposals	-	-	(2)	-	-	-	-	(2)	(2)
Transfers	-	-	83	-	-	-	-	(83)	-
Depreciation charge	-	(3,925)	(8,489)	(110)	(1,966)	(375)	(3,026)	-	(17,891)
Impairment of assets (note 12)	-	(207)	(2,113)	-	(5)	(14)	-	-	(2,339)
Effect of movement in exchange rates	2	16	26	-	4	-	1	-	49
Closing net book amount	\$ 4,045	\$ 48,409	\$ 111,240	\$ 249	\$ 6,775	\$ 439	\$ 37,727	\$ 1,773	\$ 210,657
At September 30, 2020									
Cost	\$ 4,045	\$ 61,675	\$ 188,857	\$ 1,093	\$ 12,684	\$ 3,203	\$ 60,242	\$ 1,773	\$ 333,572
Accumulated depreciation	-	(13,266)	(77,617)	(844)	(5,909)	(2,764)	(22,515)	-	(122,915)
Net book amount	\$ 4,045	\$ 48,409	\$ 111,240	\$ 249	\$ 6,775	\$ 439	\$ 37,727	\$ 1,773	\$ 210,657

- (1) Included in laundry equipment are assets under development in the amount of \$75 (2019 - \$103). These assets are not available for service and accordingly are not presently being depreciated.
- (2) Total property, plant and equipment additions are inclusive of amounts incurred in the period that are yet to be paid, with amounts remaining in accounts payable and accrued liabilities of \$181 (2019 - \$2,037).
- (3) Additions include amounts from the Canadian Division of \$2,575 (2019 - \$5,461) and from the UK Division of \$1,933 (2019 - \$5,396).

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, 2020 and 2019)

5 Long-term debt

	Prime Rate Loan ⁽¹⁾
At January 1, 2019	\$ 70,203
Net repayment of debt	(7,709)
Closing balance at December 31, 2019	\$ 62,494
At January 1, 2020	\$ 62,494
Net repayment of debt	(3,169)
Closing balance at September 30, 2020	\$ 59,325

- (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, 2019 – July 31, 2022). The additional interest margin can range between 0.0% to 1.75% dependent upon the calculated Funded Debt / Credit Facility EBITDA financial ratio, with a range between 0 to 4.5x. The required calculated Funded Debt / Credit Facility EBITDA financial ratio is subject to change based off certain terms and conditions. As at September 30, 2020 the combined interest rate was 2.95% (December 31, 2019 – 4.45%).

During the second quarter of 2020, the Corporation completed an amendment to its existing revolving credit facility which made changes to certain terms and conditions within the agreement in consideration of the ongoing COVID-19 pandemic and the impact to the Corporation's operations.

Under the credit facility, the Corporation is required, among other conditions, to respect certain covenants on a consolidated basis. The main covenants are in regard to its Funded Debt to Credit Facility EBITDA ratio and Total Fixed Charge Coverage ratio. Management reviews compliance with these covenants on a quarterly basis in conjunction with filing requirements under its credit facility. All covenants have been met as at September 30, 2020 and December 31, 2019.

The Corporation has a revolving credit facility of up to \$100,000 plus a \$25,000 accordion of which \$60,475 is utilized (including letters of credit totaling \$1,150) as at September 30, 2020. 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.

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, 2020 and 2019)

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, 2019 – \$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.

With the impact of COVID-19, the operations of certain plants have significantly been impacted, and as a result various employees have been furloughed throughout 2020. During 2020 the Corporation has recognized a provision of \$1,850 related to restructuring costs through the statement of earnings, with \$1,023 remaining as a current liability on the Corporation's consolidated statement of financial position.

b) Commitments and contractual obligations

(i) Utility commitments

The Corporation was committed to estimated natural gas and electricity commitments for the next five calendar years and thereafter as follows:

Utility commitments

Remainder of 2020	\$	1,616
2021		5,527
2022		-
2023		-
2024		-
Subsequent		-
	\$	7,143

(ii) Linen purchase commitments

At September 30, 2020, the Corporation was committed to linen expenditure obligations in the amount of \$4,108 (December 31, 2019 – \$9,821) to be incurred within the next year.

(iii) Property, plant and equipment commitments

At September 30, 2020, the Corporation was committed to capital expenditure obligations in the amount of \$258 (December 31, 2019 – \$641) to be incurred within the next year.

7 Dividends to shareholders

During the three months ended September 30, 2020, the Corporation declared total dividends to shareholders of \$3,203 or \$0.300 per share (2019 - \$3,181 or \$0.300 per share). During nine months ended September 30, 2020, the Corporation declared total dividends to shareholders of \$9,580 or \$0.900 per share (2019 - \$9,526 or \$0.900 per share).

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, 2020 and 2019)

8 Net change in non-cash working capital items

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Accounts receivable	\$ (12,723)	\$ (692)	\$ (7,388)	\$ (4,323)
Linen in service	(1,888)	708	(4,519)	(145)
Prepaid expenses and deposits	647	651	703	438
Accounts payable and other liabilities ⁽¹⁾⁽²⁾	404	2,231	(880)	(503)
Income taxes payable / receivable	(164)	4,565	(1,555)	4,865
	\$ (13,724)	\$ 7,463	\$ (13,639)	\$ 332

- 1) Accounts payable and other liabilities, include the net change of accounts payable, accrued liabilities, and current provision, but exclude the net change in non-cash amounts related to the acquisition of property, plant and equipment that have been committed to and accrued (paid) for the three and nine month period ended respectively, in 2020 of \$5 and (\$1,856), and in 2019 of (\$1,324) and (\$3,989).
- 2) Net change in the current provision (note 6) represent restructure costs accrued (paid) for the three and nine month period ended respectively, in 2020 of (\$577) and \$1,023, and in 2019 of nil and nil.

9 Financial instruments

The Corporation's financial instruments at September 30, 2020 and December 31, 2019 consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, lease liabilities, dividends payable to shareholders, and long term debt. The carrying value of accounts receivable, accounts payable and accrued liabilities, lease 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.

Credit Risk

As per the Corporation's existing policy for accounts receivable as disclosed in the Corporation's annual Consolidated Financial Statements for the year ended December 31, 2019, the Corporation applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due, and with an expected loss rate applied. The historical loss rates are adjusted to reflect current and forward-looking information based on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at September 30, 2020 was reviewed by management and adjusted for accordingly based off adjusted historical loss rates, in addition to considering the impact of the COVID-19 pandemic to credit risk and the incremental risk to the hospitality industry. With the COVID-19 pandemic, management has taken extra steps to mitigate the additional credit risk with a detailed review of amounts that are not current. This includes detailed assessments of the recoverability of accounts receivable balances of each customer taking into account historic collection trends, the contractual relationship with the customer and the nature of the customer.

As discussed under note 1, with the full financial effect of the COVID-19 pandemic being unknown at this time, any estimate of the length and severity of these developments are subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic could result in a material adjustment to our ECL model and therefore the related allowance for doubtful accounts.

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, 2020 and 2019)

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, 2020, the Corporation incurred such fees totaling \$35 (2019– \$35). For the nine months ended September 30, 2020, the Corporation incurred such fees totaling \$104 (2019– \$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.

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, 2021, 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, 2020, from these four major customers the Corporation has recorded revenue of \$78,387 (2019 – \$76,404), representing 53.6% (2019 – 40.3%) of total revenue.

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, 2020 and 2019)

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
Healthcare	\$ 104,410	71.4%	\$ 98,781	52.1%
Hospitality (note 12)	17,699	12.1%	41,842	22.1%
Canadian division	\$ 122,109	83.5%	\$ 140,623	74.2%
Healthcare	\$ 4,812	3.3%	\$ 4,761	2.5%
Hospitality	19,313	13.2%	44,134	23.3%
UK division	\$ 24,125	16.5%	\$ 48,895	25.8%
Total segment revenue	\$ 146,234	100.0%	\$ 189,518	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, 2020	Canadian division	UK division	Total
Net earnings (loss)	\$ 6,392	\$ (4,745)	\$ 1,647
EBITDA	\$ 26,414	\$ 103	\$ 26,517

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

The Canadian division net earnings includes non-cash employee share based compensation expense of \$1,389 (2019 – \$1,406).

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.

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, 2020 and 2019)

At September 30, 2020	Canadian division	UK division	Total
Total assets	\$ 257,234	\$ 81,357	\$ 338,591
Other:			
Cash and cash equivalents	-	(998)	(998)
Total segment assets	\$ 257,234	\$ 80,359	\$ 337,593

At December 31, 2019	Canadian division	UK division	Total
Total assets	\$ 260,560	\$ 91,499	\$ 352,059
Other:			
Cash and cash equivalents	-	(5,301)	(5,301)
Total segment assets	\$ 260,560	\$ 86,198	\$ 346,758

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, 2020	Canadian division	UK division	Total
Total liabilities	\$ 127,677	\$ 21,338	\$ 149,015
Other:			
Long-term debt (note 5)	(59,325)	-	(59,325)
Total segment liabilities	\$ 68,352	\$ 21,338	\$ 89,690

At December 31, 2019	Canadian division	UK division	Total
Total liabilities	\$ 132,156	\$ 23,852	\$ 156,008
Other:			
Long-term debt (note 5)	(62,494)	-	(62,494)
Total segment liabilities	\$ 69,662	\$ 23,852	\$ 93,514

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, 2020 and 2019)

12 Impairment of assets

Significant estimates

Based on management's review, the original assessment at March 31, 2020 remains appropriate in that no additional impairment amounts are determined to be required, with the exception of CGU's already deemed to be impaired. Management had previously assessed the impairment indicators that existed at March 31, 2020, specifically, five CGUs that rely primarily on hospitality revenues due to the significant impact that COVID-19 had on the hospitality industry. The recoverable amounts of these specific CGUs were recalculated using the value in use method by applying probability weightings to capture the increased risk and uncertainty arising from COVID-19.

Management's probability weighted approach was evaluated based off an equally weighted probability of a one year downturn in sales to the worst case of a two year downturn in sales. The scenarios estimated a decline of 70% for year 1 and 50% for year 2, with sales returning to normalized levels thereafter with sales growth estimates used between 2% to 3%. At March 31, 2020, an impairment loss of \$5,516 was recognized for three CGUs in the Canadian division, of which \$3,177 was allocated to goodwill and \$2,339 was allocated to PP&E.

During the nine month period ended September 30, 2020, EBITDA before impairment of PP&E was \$32,033 (2019 - \$36,471).

CGU	Allocated to Goodwill	Allocated to PP&E	Total impairment recorded	Recoverable Amount
Montreal	\$ 823	\$ -	\$ 823	\$ 2,485
Quebec	654	2,339	2,993	1,917
Victoria	1,700	-	1,700	5,433
	\$ 3,177	\$ 2,339	\$ 5,516	\$ 9,835

The recoverable amount of the UK Division and Vancouver 2 CGUs was estimated to be £67,234 and \$24,008 as at March 31, 2020 which exceeded the carrying amount of both of the CGUs. No impairment was therefore required for either of these CGUs.

The key assumptions in calculating the recoverable amount of the five CGU's where impairment calculations were as follows:

	March 31 2020
Long-term growth rate %	2.0% to 3.0%
Pre-tax discount rate %	10.5% to 12.5%

For Vancouver 2 and the UK Division, in addition to the key assumptions noted above, management has also evaluated other reasonable changes in estimates and assumptions, and did not identify any other instances at March 31, 2020, that could cause the carrying amount of these CGUs to exceed the recoverable amount.

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, 2020 and 2019)

There were no other CGUs as at September 30, 2020 showing further signs of impairment, that were not already considered at March 31, 2020, and as such we have not updated any of the other impairment calculations. The Corporation will continue to carefully monitor the situation as it pertains to COVID-19 and further consider if there are new, or additional indicators, that exist during the year.

With the ongoing development of the COVID-19 pandemic, the length and severity of these developments is therefore subject to significant uncertainty, and accordingly may materially and adversely affect assumptions used in the consideration of the impairment of assets, impact whether a CGU has been impaired, and may change prior recorded impairment amounts.

13 Subsequent events

a) Dividends

On October 15, 2020, the Board declared an eligible dividend of \$0.1000 per common share of the Corporation payable on November 13, 2020 to shareholders of record on October 31, 2020.

On November 10, 2020, the Board declared an eligible dividend of \$0.1000 per common share of the Corporation payable on December 15, 2020 to shareholders of record on November 30, 2020.