



K·BRO

## CONSOLIDATED FINANCIAL STATEMENTS



YEAR ENDED  
DECEMBER 31, 2020

[www.k-brolinen.com](http://www.k-brolinen.com) | [inquiries@k-brolinen.com](mailto:inquiries@k-brolinen.com)



## Independent auditor's report

To the Shareholders of K-Bro Linen Inc.

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### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of K-Bro Linen Inc. and its subsidiaries (together, the Corporation) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

#### What we have audited

The Corporation's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of earnings and comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flow for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers LLP  
Stantec Tower, 10220 103 Avenue NW, Suite 2200, Edmonton, Alberta, Canada T5J 0K4  
T: +1 780 441 6700, F: +1 780 441 6776



#### Key audit matter

#### **Impairment assessment of goodwill, intangibles and other long-lived assets for the cash generating units (CGUs) that rely primarily on hospitality revenues**

*Refer to note 9 – Goodwill, note 26 – Impairment of assets, note 2 – Significant accounting policies and note 5 – Critical accounting estimates and judgments to the consolidated financial statements.*

The Corporation had goodwill of \$38.5 million, intangible assets of \$10.0 million and property, plant and equipment of \$208.7 million as at December 31, 2020, which include amounts related to the CGUs that rely primarily on hospitality revenues.

Management reviews goodwill at least annually and other non-financial assets when there is any indication that the asset might be impaired.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount firstly to the recorded goodwill, then to the other assets in the CGU on a pro rata basis, as determined by the carrying amount of each asset in the CGU.

For the hospitality CGUs, the probability weighted discounted cash flow approach was used at both March 31, 2020 and December 31, 2020 to capture the increased risk and uncertainty arising from COVID-19.

For the March 31, 2020 impairment test, management's probability weighted approach was evaluated based on an equally weighted probability of a one-year downturn in sales to the worst case scenario of a two-year downturn in sales.

For the December 31, 2020 impairment test, management's probability weighted approach was

#### How our audit addressed the key audit matter

Our approach to addressing the matter included the following procedures, among others:

- Evaluated how management determined the recoverable amounts of the goodwill, intangibles and other long-lived assets related to CGUs that rely primarily on hospitality revenues, which included the following:
  - Tested the appropriateness of the approach used and the mathematical accuracy of the probability weighted discounted cash flows.
  - Tested appropriateness and reasonableness of the probability weighted scenarios of a one to two-year downturn in sales at March 31, 2020 and a two to three-year downturn in sales at December 31, 2020.
  - Tested the reasonableness of the long-term growth rates applied by management in the probability weighted discounted cash flows by comparing them to the historical growth rates of the CGUs and to the budget approved by the Board of Directors.
  - Professionals with specialized skill and knowledge in the field of valuation assisted in testing the reasonableness of the discount rates applied by management based on available data of comparable companies.
  - Tested the underlying data used in the probability weighted discounted cash flows.
- Tested the disclosures made in the consolidated financial statements, particularly with regard to the sensitivity of the key assumptions used.



#### Key audit matter

#### How our audit addressed the key audit matter

evaluated based on an equally weighted probability of a continued two-year downturn in sales to the worst case of a three-year downturn in sales for the remaining CGUs.

Key assumptions in calculating the recoverable amount of the CGUs were long-term growth rates and discount rates.

As a result of the testing at March 31, 2020, an impairment loss of \$5.5 million was recognized for three CGUs, of which \$3.2 million was allocated to goodwill and \$2.3 million was allocated to property and equipment. As at December 31, 2020, no further impairment was required for any of these CGUs.

We considered this a key audit matter due to (i) the significance of the goodwill balance and (ii) the significant judgments and estimates made by management in determining the recoverable amount of the CGUs that rely primarily on hospitality revenues, including the use of key assumptions. This has resulted in a high degree of subjectivity and audit effort in performing audit procedures to test the key assumptions. Professionals with skill and knowledge in the field of valuation assisted us in performing our procedures.

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#### Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially



inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

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### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from



error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



The engagement partner on the audit resulting in this independent auditor's report is Richard Probert.

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Edmonton, Alberta

March 18, 2021

# Consolidated Statements of Financial Position

(thousands of Canadian dollars)

	December 31, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,416	\$ 5,301
Accounts receivable	28,108	34,900
Income tax receivable	370	-
Prepaid expenses and deposits	4,231	4,334
Linen in service (note 6)	31,549	26,039
	66,674	70,574
<b>Property, plant and equipment (note 7)</b>	<b>208,660</b>	<b>226,332</b>
<b>Intangible assets (note 8)</b>	<b>9,980</b>	<b>13,699</b>
<b>Goodwill (note 9)</b>	<b>38,497</b>	<b>41,454</b>
	\$ 323,811	\$ 352,059
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and other liabilities	\$ 24,620	\$ 28,689
Provisions (note 10)	884	-
Contract liability (note 3)	1,259	-
Lease liabilities (note 13)	8,298	8,297
Income taxes payable	2,623	1,507
Dividends payable to shareholders	1,068	1,060
	38,752	39,553
<b>Long-term debt (note 11)</b>	<b>40,657</b>	<b>62,494</b>
<b>Lease liabilities (note 13)</b>	<b>37,705</b>	<b>38,531</b>
<b>Provisions (note 10)</b>	<b>2,789</b>	<b>2,838</b>
<b>Contract liability (note 3)</b>	<b>406</b>	<b>-</b>
<b>Deferred income taxes (note 14)</b>	<b>13,998</b>	<b>12,592</b>
	\$ 134,307	\$ 156,008
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	204,869	203,110
Contributed surplus	2,281	2,241
Deficit	(19,079)	(10,078)
Accumulated other comprehensive income	1,433	778
	\$ 189,504	\$ 196,051
<b>Contingencies and commitments (note 15)</b>	<b>\$ 323,811</b>	<b>\$ 352,059</b>

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

## Approved by the Board of Directors

/s/Ross S. Smith

**Ross S. Smith**  
Director

/s/ Matthew Hills

**Matthew Hills**  
Director



# Consolidated Statements of Earnings & Comprehensive Income

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

Years ended December 31	2020	2019
<b>Revenue (note 25)</b>	\$ 196,591	\$ 252,410
<b>Expenses</b>		
Wages and benefits (notes 3 and 15)	67,620	99,562
Linen (note 6)	24,780	27,463
Utilities	11,644	16,427
Delivery (notes 3 and 15)	20,719	28,789
Occupancy costs (note 3)	3,561	4,483
Materials and supplies	6,986	8,256
Repairs and maintenance	7,006	8,761
Corporate (note 3)	10,520	11,104
Gain on disposal of property, plant and equipment	(5)	(8)
Impairment of assets (note 26)	5,516	-
	<b>158,347</b>	<b>204,837</b>
<b>EBITDA</b>	<b>38,244</b>	<b>47,573</b>
<b>Other expenses</b>		
Depreciation of property, plant and equipment (note 7)	24,048	24,705
Amortization of intangible assets (note 8)	3,836	3,260
Finance expense (note 12)	3,961	5,802
	<b>31,845</b>	<b>33,767</b>
<b>Earnings before income taxes</b>	<b>6,399</b>	<b>13,806</b>
Current income tax expense	1,234	1,722
Deferred income tax expense	1,383	1,178
<b>Income tax expense (note 14)</b>	<b>2,617</b>	<b>2,900</b>
<b>Net earnings</b>	<b>\$ 3,782</b>	<b>\$ 10,906</b>
<b>Other comprehensive income</b>		
Items that may be subsequently reclassified to earnings:		
Foreign currency translation differences on foreign operations	655	(888)
<b>Total comprehensive income</b>	<b>\$ 4,437</b>	<b>\$ 10,018</b>
<b>Net earnings per share (note 17):</b>		
Basic	\$ 0.36	\$ 1.04
Diluted	\$ 0.36	\$ 1.03
<b>Weighted average number of shares outstanding:</b>		
Basic	10,557,147	10,508,080
Diluted	10,629,237	10,571,347

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

# Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)

	Total Share Capital	Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
<b>As at December 31, 2019</b>	\$ 203,110	\$ 2,241	\$ (10,078)	\$ 778	\$ 196,051
Total comprehensive income	-	-	3,782	655	4,437
Dividends declared (note 19)	-	-	(12,783)	-	(12,783)
Employee share based compensation expense	-	1,799	-	-	1,799
Shares vested during the year	1,759	(1,759)	-	-	-
<b>As at December 31, 2020</b>	\$ 204,869	\$ 2,281	\$ (19,079)	\$ 1,433	\$ 189,504

	Total Share Capital	Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
<b>As at December 31, 2018</b>	\$ 201,429	\$ 2,112	\$ (6,547)	\$ 1,666	\$ 198,660
Change in accounting policy	-	-	(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	-	-	10,906	(888)	10,018
Dividends declared (note 19)	-	-	(12,707)	-	(12,707)
Employee share based compensation expense	-	1,810	-	-	1,810
Shares vested during the year	1,681	(1,681)	-	-	-
<b>As at December 31, 2019</b>	\$ 203,110	\$ 2,241	\$ (10,078)	\$ 778	\$ 196,051

The accompanying notes are an integral part of these Consolidated Financial Statements.

# Consolidated Statements of Cash Flow

(thousands of Canadian dollars)

Years ended December 31	2020	2019
<b>OPERATING ACTIVITIES</b>		
<b>Net earnings</b>	\$ 3,782	\$ 10,906
Depreciation of property, plant and equipment (note 7)	24,048	24,705
Amortization of intangible assets (note 8)	3,836	3,260
Gain on forgiveness of lease liabilities (note 3)	(464)	-
Accretion expense (note 10)	29	199
Employee share based compensation expense	1,799	1,810
Gain on disposal of property, plant and equipment	(5)	(8)
Impairment of assets (note 26)	5,516	-
Deferred income taxes	1,383	1,178
	<b>39,924</b>	<b>42,050</b>
Change in non-cash working capital items (note 20)	2,472	1,866
<b>Cash provided by operating activities</b>	<b>42,396</b>	<b>43,916</b>
<b>FINANCING ACTIVITIES</b>		
Net repayment of revolving debt (note 11)	(21,837)	(7,709)
Principal elements of lease payments (note 3)	(6,222)	(6,691)
Dividends paid to shareholders	(12,775)	(12,703)
<b>Cash used in financing activities</b>	<b>(40,834)</b>	<b>(27,103)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(4,420)	(12,942)
Proceeds from disposal of property, plant and equipment	7	51
Purchase of intangible assets (note 8)	-	(1,439)
<b>Cash used in investing activities</b>	<b>(4,413)</b>	<b>(14,330)</b>
Change in cash and cash equivalents during the year	(2,851)	2,483
Effect of exchange rate changes on cash and cash equivalents	(34)	(9)
<b>Cash and cash equivalents, beginning of year</b>	<b>5,301</b>	<b>2,827</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,416</b>	<b>\$ 5,301</b>
<b>Supplementary cash flow information</b>		
Interest paid	\$ 3,849	\$ 5,459
Income taxes paid	\$ 518	\$ 228

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

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts,  
Years ended December 31, 2020 and 2019)

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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 March 18, 2021.

## 1 Basis of Presentation

The Consolidated Financial Statements of the Corporation have been prepared in accordance with International Financial Reporting Standards as published in the CPA Canada Handbook (IFRS). The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in Note 5.

## 2 Significant accounting policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### a) Basis of Measurement

The Consolidated Financial Statements have been prepared under the historical cost convention.

### b) Principles of Consolidation

The consolidated financial statements include the Corporation, its wholly owned subsidiaries, and the long-term incentive plan account (Note 2(o)). All intercompany balances and transactions have been eliminated upon consolidation.

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts,  
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## **c) Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits with banks, other short-term highly liquid investments with original maturities of three months or less.

Cash and cash equivalents are classified as loans and receivables and are carried at amortized cost, which is equivalent to fair value.

## **d) Linen in Service**

Linen in service is stated at cost less accumulated depreciation. The cost is based on the expenditures that are directly attributable to the acquisition of linen, amortization commences when linen is put into service; with operating room linen amortized across its estimated service life of 24 months and general linen amortized based on usage which results in an estimated average service life of 24 to 36 months.

## **e) Revenue Recognition**

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

### **1. Identifying the Contract**

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

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

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

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts,  
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## 2. Identifying performance obligations in a contract

Linen services are provided to the Corporation's customers consecutively over a period of time (i.e., daily deliveries over the contract term) and the same method is used to measure the Corporation's progress in satisfying the performance of the contract (i.e., revenue is based on contractually set pricing on a consistent unit-of-weight or price-per-piece basis for each service over the term of the contract). Additionally, these services generally include integrated processing and delivery, consist of a single deliverable (clean processed volume), and in the case of rental linen, are not offered individually (rental linen is used as an input in the provision of standard laundry and linen services). Therefore, the services provided under one service agreement constitute a single performance obligation.

## 3. Determining the transaction price

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

## 4. Allocating the Transaction Price

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

Volume rebates, where applicable, are recorded based on annualized expected volumes of individual customer contracts when it is reasonable that the criteria are likely to be met. Based on past experience, management believes that volumes utilized for any estimates are reasonable and would not expect a material deviation to the balance of accrued liabilities or revenue.

## 5. Performance obligations satisfied over time

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

Payment of laundry services are due respective of the terms as indicated in the customer's laundry service contract, whereby customers are generally invoiced on a monthly basis and consideration is payable when invoiced.

The Corporation presents its contract balances, on a contract-by-contract basis, in a net contract asset or liability position, separately from its trade receivables. Contract assets and trade receivables are both rights to receive consideration in exchange for goods or services that the Company has transferred to a customer, however the classification

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts,  
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depends on whether such right is only conditional on the passage of time (trade receivables) or if it is also conditional on something else (contract assets), such as the satisfaction of further performance obligations under the contract. A contract liability is the cumulative amount received and contractually receivable by the Corporation that exceeds the right to consideration resulting from the Corporation's performance under a given contract.

## f) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be reliably measured. The carrying amount of a replaced part is derecognized. Repairs and maintenance are charged to the Consolidated Statements of Earnings and Comprehensive Income during the financial period in which they are incurred.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. The Corporation has not capitalized any borrowing costs during the year as there were no qualifying assets.

Property, plant and equipment include right of use assets as disclosed under the Corporation's leasing policy in note 2(r). Right of use assets arise from a lease that is initially measured on a present value basis, and are classified within the relevant property, plant and equipment categories based on the type of asset.

The major categories of property, plant and equipment are depreciated on a straight-line basis to allocate their cost over their estimated useful lives as follows:

Asset	Rate
Buildings	15 - 25 years
Laundry equipment	7 - 20 years
Office equipment	2 - 5 years
Delivery equipment	5 - 10 years
Computer equipment	2 years
Leasehold improvements	Lease term

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset.

## g) Intangible Assets

Intangible assets acquired in a business combination are recorded at fair value at the acquisition date. Subsequently they are carried at cost less accumulated amortization and accumulated impairment losses.

The major categories of intangible assets are depreciated on a straight-line basis to allocate their cost over their estimated useful lives as follows:

# Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except share and per share amounts,  
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Asset	Rate
Customer contracts	1 - 20 years
Computer software	5 years
Brand	Indefinite

These estimates are reviewed at least annually and are updated if expectations change as a result of changing client relationships or technological obsolescence.

## h) Impairment of Non-Financial Assets

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating unit or "CGU"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount firstly to the recorded goodwill, then to the other assets in the CGU on a pro rata basis, as determined by the carrying amount of each asset in the CGU. The Corporation evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

## i) Income Taxes

The tax expense for the year comprises current and deferred tax. Tax is recognized in the Consolidated Statements of Earnings and Comprehensive Income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax provision is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date of the taxation authority where the Corporation operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

## j) Business Combinations

Business combinations are accounted for using the acquisition method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. The consideration transferred includes the fair value of any asset or liability resulting from a contingent



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consideration arrangement. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred.

## **k) Goodwill**

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their estimated fair values at the acquisition date. Goodwill is allocated as of the date of the business combination. Goodwill is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate a potential impairment.

Goodwill acquired through a business combination is allocated to each CGU, or group of CGUs, that are expected to benefit from the related business combination. A CGU represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

## **l) Earnings Per Share**

Basic earnings per share ("EPS") is calculated by dividing net earnings for the period attributable to Shareholders of the Corporation by the weighted average number of Common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of common shares included within the weighted average is computed using the treasury stock method. The Corporation's potentially dilutive Common shares are comprised of long-term incentive plan equity compensation granted to officers and key employees (Note 2(o)).

## **m) Foreign Currency Translation**

The consolidated financial statements are presented in Canadian dollars. The Corporation's operations in Canada have a functional currency of Canadian dollars. The Corporation's operations in the UK have a functional currency of pounds sterling.

### **Translation of foreign entities**

The functional currency for each of the Corporation's subsidiaries is the currency of the primary economic environment in which it operates. Operations with foreign functional currencies are translated into the Corporation's presentation currency in the following manner:

- Monetary and non-monetary assets and liabilities are translated at the spot exchange rate in effect at the reporting date;
- Revenue and expense items (including depreciation and amortization) are translated at average rates of exchange prevailing during the period, which approximate the exchange rates on the transaction dates;
- Impairment of assets are translated at the prevailing rate of exchange on the date of the impairment recognition, and;
- Exchange gains and losses that result from translation are recognized as a foreign currency translation difference in accumulated other comprehensive income (loss).

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## Translation of transactions and balances

Transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the date of the transaction as follows:

- Monetary assets and liabilities are translated at the exchange rate in effect at the reporting date;
- Non-monetary items are translated at historical exchange rates; and
- Revenue and expense items are translated at the average rates of exchange, except depreciation and amortization, which are translated at the rates of exchange applicable to the related assets, with any gains or losses recognized within "finance expense" in the consolidated statements of earnings & comprehensive income.

## n) Provisions

Provisions are recognised when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

## o) Employee Benefits

### Post-employment benefit obligations

The Corporation contributes on behalf of its employees to their individual Registered Retirement Savings Plans subject to an annual maximum of 10% of gross personal earnings. The Corporation accounts for contributions as an expense in the period that they are incurred. The Corporation does not provide any other post-employment or post-retirement benefits.

### Existing equity-based compensation plan of the Corporation

On June 16, 2011, the Shareholders of the Corporation approved a new Long-term Incentive Plan ("LTI"), which was amended and restated as of December 31, 2018. Under the LTI, awards are granted annually in respect of the prior fiscal year to the eligible participants based on a percentage of annual salary. The amount of the award (net of withholding obligations) is satisfied by issuing treasury shares or cash to be held in trust by the trustee pursuant to the terms of the LTI. All awards issued under the provisions of the LTI are recorded as compensation expense over the relevant service period, being the year to which the LTI relates and the vesting period of the shares.

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The Amendment made on December 31, 2018 gave the Board of Directors the right to elect to satisfy the award in cash. The Corporation has determined that this change did not create an obligation to satisfy the award in cash and therefore the LTI continues to be treated as an equity settled share based payment.

Subject to the discretion of the Compensation, Nominating and Corporate Governance Committee of the Board of Directors, one-quarter of a Participant's grant will vest on the Determination Date (defined as the first May 15th following the date that the Directors of the Corporation approve the audited consolidated financial statements of the Corporation for the prior year). The remaining three-quarters of the Participant's grant will vest on November 30th following the second anniversary of the Determination Date.

If a change of control occurs, all LTI Shares held by the Administrator in respect of unvested grants will vest immediately. LTI participants are entitled to receive dividends on all common shares granted under the LTI whether vested or unvested. In most circumstances, unvested common shares held by the LTI Administrator for a participant will be forfeited if the participant resigns or is terminated for cause prior to the applicable vesting date, and those common shares will be disposed of by the Administrator to K-Bro for no consideration and such Common shares shall thereupon be cancelled. If a participant is terminated without cause, retires or resigns on a basis which constitutes constructive dismissal, the participant will be entitled to receive his or her unvested common shares on the regular vesting schedule under the LTI.

## p) Financial Instruments

The Corporation classifies its financial assets in the following measurement categories:

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

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

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

The Corporation's financial assets consist of cash and cash equivalents and accounts receivable, which are measured at amortized cost using the effective interest method under IFRS 9.

The Corporation's financial liabilities consist of accounts payable and accrued liabilities, lease liabilities, dividends payable and long-term debt. Accounts payable and accrued liabilities and dividends payable are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method. Lease liabilities are recognized initially at their net present value and subsequently measured at amortized cost using the effective interest method.

Long-term debt and borrowings are initially recognized at fair value, net of transaction costs incurred and are subsequently measured at amortized cost. Long-term debt and borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

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The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Financial assets and liabilities are offset, and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period and included as part of the profit and loss.

## **q) Impairment of Financial Assets**

Information about the impairment of financial assets, their credit quality and the Corporation's exposure to credit risk can be found in Note 21(d). The Corporation utilizes the application of the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, the Corporation's trade receivables have been grouped based on operating segment, shared credit risk characteristics and days past due. Accounting judgment and estimate is required in the assessment of the lifetime expected default rate of each trade receivables grouping. The lifetime expected default rates are reviewed at least annually and are updated if expectations change.

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss equal to the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

## **r) 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 Note 2(r)(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 financial covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognized 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.

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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.

To determine the incremental borrowing rate, the Corporation:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, and
- makes adjustments specific to the lease, e.g., term, country, currency and security.

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 recognized 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.

## **(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.

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## s) Government Grants

Government grants, including non-monetary grants at fair value, are only recognised when there is reasonable assurance that:

- (a) all conditions attaching to the Government grant will be complied with;
- (b) the value of the grant can be determined with reasonable certainty; and
- (c) the grant will be received.

Government grants are recognised in the profit or loss over the periods in which the Corporation recognises related expenses. Where government grants relate to costs which have been capitalised as assets these are recognised as a reduction to the related asset in the consolidated statements of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Corporation with no future related costs are recognised in profit or loss in the period in which they relate to.

## 3 Changes and updates in accounting policies

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

New or amended standards became applicable during 2020, 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:

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.

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During the year ended December 31, 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 twelve month period ended December 31, 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 recognized 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:

### **Canadian Division**

- 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 year ended December 31, 2020, the Corporation submitted claims of \$8,348 under the CEWS program, with the majority of the amounts received with only \$299 outstanding in receivables on the Corporation's Consolidated Statement of financial position at December 31, 2020. The Corporation will continue to evaluate its eligibility under the CEWS program through the balance of 2021.
- II. The Corporation received \$2,788 of linen in service from the Ontario Ministry of Health in exchange for a contractual commitment to provide a deferred linen service credit of \$1,665 to various Ontario hospitals allocated over the useful life of the linen. The difference between the fair value of linen in service received and the linen service credit is considered to be government assistance related to an asset that has been recorded as a reduction in the value of the linens and will be recognized as a reduction of the linen amortization charge over the life of the linens in service. The deferred linen service credit of \$1,665 is reflected as a contract liability on the Corporation's Consolidated Statements of financial position at December 31, 2020.

### **UK division**

- III. 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 year ended December 31, 2020, the Corporation submitted claims of £3,433 (\$5,907) under the CJRS program with the majority of the amounts received with only £58 (\$101) outstanding in receivables on the Corporation's Consolidated Statement of financial position at December 31, 2020. The Corporation will continue to evaluate its eligibility under the CJRS program through the balance of 2021.

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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. During the year ended December 31, 2020, \$14,255 of government grants were offset to operating expenses which includes, wages and benefits of \$10,684, delivery of \$2,281, and corporate costs of \$1,290. During the year ended December 31, 2020, no amounts for the deferred linen service credit have been recognized in revenue such that the closing balance of the contract liability remains at \$1,665.

## 4 New standards and interpretations not yet adopted

The Corporation has not adopted any standard, interpretation or amendment that has been issued but is not yet effective and no material impact is expected on the Corporation's consolidated financial statements.

### Interest Rate Benchmark Reform – Phase 2

In August 2020, the IASB issued Interest Rate Benchmark Reform – Phase 2, which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases. The amendments apply for annual periods beginning on or after January 1, 2021. Earlier application is permitted.

The Phase 2 amendments address issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate.

The Corporation does not expect a material impact from the application of the Phase 2 amendments given that the contractual cash flows of its financial instruments and lease liabilities are not dependent upon any interest rate benchmarks under the scope of the reform and the Corporation does not apply hedge accounting.

## 5 Critical accounting estimates and judgments

The preparation of the Corporation's consolidated 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.

### COVID-19 Risk

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.



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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 COVID-19 outbreaks, the availability and effectiveness of the vaccine, the duration and geographic scope of related travel advisories and restrictions and the extent of the impact of the COVID-19 pandemic 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, consolidated results of operations will be significantly impacted. The extent to which the outbreaks 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 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, the Corporation is managing the ongoing risk 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.

Uncertainty about judgments, estimates and assumptions made by management during the preparation of the Corporation's 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.

The following discusses the most significant accounting judgments and estimates that the Corporation has made in the preparation of the consolidated financial statements:

## **Areas of Significant Judgement**

### **Recognition of rebate liabilities**

In applying its accounting policy for volume rebates, the Corporation must determine whether the processing volume thresholds will be achieved. The most difficult and subjective area of judgment is whether a contract will generate satisfactory volume to achieve minimum levels. Management considers all appropriate facts and circumstances in making this assessment including historical experience, current volumetric run-rates, and expected future events.

### **Impairment of goodwill and non-financial assets**

Management reviews goodwill at least annually and other non-financial assets when there is any indication that the asset might be impaired. The assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset is impaired.

The Corporation applies judgment in:

- assessing the likelihood of renewal of significant contracts included in the intangible assets described in Note 8,
- identifying the CGUs to which intangible assets should be allocated to, and the CGU or group of CGUs at which goodwill is monitored for internal management purposes, and
- determining the appropriate comparable companies used in earnings multiple approach.

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During the first quarter of 2020, based on impairment indicators that existed as a result of the COVID-19 pandemic, management had 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 26 for further detail.

## Segment identification

When determining its reportable segments, the Corporation considers qualitative factors, such as operations that offer distinct products and services and are considered to be significant by the Chief Operating Decision Maker, identified as the Chief Executive Officer. Aggregation occurs when the operating segments have similar economic characteristics and have similar (a) products and services; (b) geographic proximity; (c) type or class of customer for their products and services; (d) methods used to distribute their products or provide their services; and (e) nature of the regulatory environment, if applicable.

## 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.

## Areas of Estimation Uncertainty

### Incremental Borrowing Rate

In applying its accounting policy for leases management considers all appropriate facts and circumstances in the determination the lessee's incremental borrowing rate being used and these rates are reviewed and update on an annual basis.

### Amortization of property, plant and equipment, and intangible assets

In applying its accounting policy for the amortization of property, plant and equipment, and intangible assets, management considers all appropriate facts and circumstances in the determination of the appropriate rates and methodology to allocate costs over their estimated useful lives, including historical experience, current volumetric run-rates, and expected future events.

### Linen in service

The estimated service lives of linen in service are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits of use.

### Provisions

The Corporation's provision includes restructure costs and the restoration for premises of its leased plants. The Corporation determines restructure costs based off employment standards and legal consultation. For leased plants, a provision has been recognized for the present value of the estimated expenditure required to remove any leasehold improvements and installed equipment. Refer to Note 10 for more details about estimation for this provision.

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## Impairment of goodwill and non-financial assets

Management reviews goodwill at least annually and other non-financial assets when there is any indication that the asset might be impaired. As part of this review the Corporation use estimates to calculate the appropriate discount rate and growth rate which are used to estimate the recoverable value.

During instances where indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash generating unit to which the asset belongs. The recoverable value of CGUs require the use of estimates related to the future operating results and cash generating ability of the assets.

Management regularly evaluates these estimates and judgments. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

## 6 Linen in service

	2020	2019
Balance, beginning of year	\$ 26,039	\$ 26,371
Additions	30,177	27,307
Amortization charge	(24,780)	(27,463)
Effect of movement in exchange rates	113	(176)
Balance, end of year	\$ 31,549	\$ 26,039

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## 7 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, 2019</b>									
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 <sup>(2)(3)</sup>	-	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)
<b>Closing net book amount</b>	<b>\$ 4,043</b>	<b>\$ 52,524</b>	<b>\$ 119,704</b>	<b>\$ 309</b>	<b>\$ 6,578</b>	<b>\$ 708</b>	<b>\$ 40,610</b>	<b>\$ 1,856</b>	<b>\$ 226,332</b>
<b>At December 31, 2019</b>									
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)
<b>Net book amount</b>	<b>\$ 4,043</b>	<b>\$ 52,524</b>	<b>\$ 119,704</b>	<b>\$ 309</b>	<b>\$ 6,578</b>	<b>\$ 708</b>	<b>\$ 40,610</b>	<b>\$ 1,856</b>	<b>\$ 226,332</b>
<b>Year ended, December 31, 2020</b>									
Opening net book amount	\$ 4,043	\$ 52,524	\$ 119,704	\$ 309	\$ 6,578	\$ 708	\$ 40,610	\$ 1,856	\$ 226,332
Additions <sup>(2)(3)</sup>	-	1	2,329	64	5,725	145	43	-	8,307
Disposals	-	-	(2)	-	-	-	-	-	(2)
Transfers	-	-	153	-	-	-	-	(153)	-
Depreciation charge <sup>(4)</sup>	-	(5,229)	(11,289)	(144)	(2,933)	(459)	(3,994)	-	(24,048)
Impairment of assets (note 26)	-	(207)	(2,113)	-	(5)	(14)	-	-	(2,339)
Effect of movement in exchange rates	19	125	191	2	69	-	4	-	410
<b>Closing net book amount</b>	<b>\$ 4,062</b>	<b>\$ 47,214</b>	<b>\$ 108,973</b>	<b>\$ 231</b>	<b>\$ 9,434</b>	<b>\$ 380</b>	<b>\$ 36,663</b>	<b>\$ 1,703</b>	<b>\$ 208,660</b>
<b>At December 31, 2020</b>									
Cost	\$ 4,062	\$ 61,810	\$ 189,464	\$ 1,110	\$ 16,347	\$ 3,228	\$ 60,145	\$ 1,703	\$ 337,869
Accumulated impairment losses	-	(207)	(2,113)	-	(5)	(14)	-	-	(2,339)
Accumulated depreciation	-	(14,389)	(78,378)	(880)	(6,907)	(2,834)	(23,482)	-	(126,870)
<b>Net book amount</b>	<b>\$ 4,062</b>	<b>\$ 47,214</b>	<b>\$ 108,973</b>	<b>\$ 230</b>	<b>\$ 9,435</b>	<b>\$ 380</b>	<b>\$ 36,663</b>	<b>\$ 1,703</b>	<b>\$ 208,660</b>

- Included in laundry equipment are assets under development in the amount of \$24 (2019 - \$103). These assets are not available for service and accordingly are not presently being depreciated.
- 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 other liabilities of \$312 (2019 - \$2,037).
- Additions include amounts from the Canadian Division of \$2,544 (2019 - \$5,461) and from the UK Division of \$5,763 (2019 - \$5,396).
- During 2020 based off impairment indicators that existed in the year, the Corporation determined that the carrying value exceeded the recoverable amount for one of their cash generating units, and an impairment loss was recorded for property, plant and equipment, for further detail refer to note 26.

## 8 Intangible assets

	Healthcare Relationships	Hospitality Relationships	Computer Software	Brand	Total
<b>Year ended, December 31, 2019</b>					
Opening net book amount	\$ 983	\$ 10,339	\$ -	\$ 4,360	\$ 15,682
Additions	-	1,439	-	-	1,439
Amortization charge	(453)	(2,807)	-	-	(3,260)
Effect of movement in exchange rates	-	(96)	-	(66)	(162)
<b>Closing net book amount</b>	<b>\$ 530</b>	<b>\$ 8,875</b>	<b>\$ -</b>	<b>\$ 4,294</b>	<b>\$ 13,699</b>
<b>At December 31, 2019</b>					
Cost	\$ 19,200	\$ 22,845	\$ 927	\$ 4,294	\$ 47,266
Accumulated amortization	(18,670)	(13,970)	(927)	-	(33,567)
<b>Net book amount</b>	<b>\$ 530</b>	<b>\$ 8,875</b>	<b>\$ -</b>	<b>\$ 4,294</b>	<b>\$ 13,699</b>
<b>Year ended, December 31, 2020</b>					
Opening net book amount	\$ 530	\$ 8,875	\$ -	\$ 4,294	\$ 13,699
Amortization charge	(453)	(3,383)	-	-	(3,836)
Effect of movement in exchange rates	-	66	-	51	117
<b>Closing net book amount</b>	<b>\$ 77</b>	<b>\$ 5,558</b>	<b>\$ -</b>	<b>\$ 4,345</b>	<b>\$ 9,980</b>
<b>At December 31, 2020</b>					
Cost	\$ 19,200	\$ 22,911	\$ 927	\$ 4,345	\$ 47,383
Accumulated amortization	(19,123)	(17,353)	(927)	-	(37,403)
<b>Net book amount</b>	<b>\$ 77</b>	<b>\$ 5,558</b>	<b>\$ -</b>	<b>\$ 4,345</b>	<b>\$ 9,980</b>

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## 9 Goodwill

Goodwill represents the excess of the acquisition-date fair value of consideration transferred over the fair value of the identifiable net assets acquired in a business combination. Goodwill is not amortized. Refer to Note 26 for the Corporation's impairment testing disclosure.

Goodwill has been allocated to the following CGUs:

	December 31, 2020	December 31, 2019
Calgary	\$ 8,082	\$ 8,082
Edmonton	4,346	4,346
Vancouver 2	3,413	3,413
Vancouver 1	2,630	2,630
Victoria	1,508	3,208
Montréal	-	823
Québec	-	654
<b>Canadian division</b>	<b>\$ 19,979</b>	<b>\$ 23,156</b>
	December 31, 2020	December 31, 2019
UK division	\$ 18,100	\$ 18,100
Changes due to movement in exchange rates	418	198
<b>UK division</b>	<b>\$ 18,518</b>	<b>\$ 18,298</b>
<b>Goodwill</b>	<b>\$ 38,497</b>	<b>\$ 41,454</b>

## 10 Provisions

The Corporation's provision includes a current provision of \$884 to recognize restructuring costs, and a long-term provision of \$2,789 that is comprised of lease provisions and obligations to restore leased premises of its leased plants.

Management estimates the current provision based on consultation from legal and current employment standards. Estimates of the long-term provision, is based off information from previous asset retirement obligations, as well as plant specific factors. Factors that could impact the estimated obligation are labour costs, the extent of removal work required, the number of lease extensions exercised and the inflation rate.

A long-term provision has been recognized for the present value of the estimated expenditure required to settle the lease provision and to remove leasehold improvements and installed equipment. The Corporation estimates the undiscounted, inflation adjusted cash flows required to settle these obligations at December 31, 2020 to be \$2,928 (2019 -\$3,063). Management has estimated the present value of this obligation at December 31, 2020 to be \$2,789 (2019 - \$2,838) using an inflation rate of 1.40% (2019 - 1.90%) and pre-tax weighted average risk-free interest rate of 0.20% to 1.10% (2019 - 1.68% to 1.76%) dependent upon length of the lease term, which reflects current market assessments of the time value of money. These obligations are expected to be incurred over an estimated period from 2022 to 2033.

# Notes to the Consolidated Financial Statements

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As at December 31, 2020, if actual costs were to differ by 10% from management's estimate the obligation would be an estimated \$367 (2019 - \$284) higher or lower. It is possible the estimated costs could change and changes to these estimates could have a significant effect on the Corporation's consolidated financial statements.

The Corporation recorded the following provision activity during the year:

For year ended December 31, 2020	Asset Retirement Obligations	Restructuring Costs	Other	Total
Balance, beginning of year	\$ 2,740	\$ -	\$ 98	\$ 2,838
New provisions	-	1,852	-	1,852
Charges against provisions	29	-	-	29
Adjustments / settlement	13	(968)	(98)	(1,053)
Changes due to movement in exchange rates	7	-	-	7
<b>Balance, end of year</b>	<b>\$ 2,789</b>	<b>\$ 884</b>	<b>\$ -</b>	<b>\$ 3,673</b>
Current portion	\$ -	\$ 884	\$ -	\$ 884
Non-current portion	\$ 2,789	\$ -	\$ -	\$ 2,789

For year ended December 31, 2019	Asset Retirement Obligations	Restructuring Costs	Other	Total
Balance, beginning of year	\$ 2,547	\$ -	\$ 116	\$ 2,663
Charges against provisions	199	-	-	199
Adjustments / settlement	-	-	(18)	(18)
Changes due to movement in exchange rates	(6)	-	-	(6)
<b>Balance, end of year</b>	<b>\$ 2,740</b>	<b>\$ -</b>	<b>\$ 98</b>	<b>\$ 2,838</b>
Current portion	\$ -	\$ -	\$ -	\$ -
Non-current portion	\$ 2,740	\$ -	\$ 98	\$ 2,838

## 11 Long-term debt

	Prime Rate Loan <sup>(1)</sup>
At January 1, 2019	\$ 70,203
Net repayment of debt	(7,709)
<b>Closing balance at December 31, 2019</b>	<b>\$ 62,494</b>
At January 1, 2020	\$ 62,494
Net repayment of debt	(21,837)
<b>Closing balance at December 31, 2020</b>	<b>\$ 40,657</b>

- (1) The revolving credit facility is collateralized by a general security agreement, bears interest at prime or the applicable banker's acceptance rate, 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 December 31, 2020 the combined interest rate was 2.70% (December 31, 2019 - 4.45%).

During 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

# Notes to the Consolidated Financial Statements

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these covenants on a quarterly basis in conjunction with filing requirements under its credit facility. All covenants have been met as at December 31, 2020 and December 31, 2019.

The Corporation has a revolving credit facility of up to \$100,000 plus a \$25,000 accordion of which \$41,307 is utilized (including letters of credit totaling \$650) as at December 31, 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 of UK pounds based loans, letters of credit or standby letters of guarantee. Drawings under the revolving credit facility bear interest at a floating rate, plus an applicable margin based on certain financial performance ratios.

A general security agreement over all assets, a mortgage against all leasehold interests and real property, insurance policies and an assignment of material agreements have been pledged as collateral.

The carrying value of borrowings approximate their fair value as the debt is based on a floating rate, the interest rate risk has not changed, and the impact of discounting is not significant.

The Corporation has incurred no events of default under the terms of its credit facility agreement.

## 12 Finance expense

	2020	2019
Interest on long-term debt	\$ 1,690	\$ 3,302
Lease interest expense	1,944	2,070
Accretion expense	29	199
Other charges, net	298	231
	<b>\$ 3,961</b>	<b>\$ 5,802</b>

# Notes to the Consolidated Financial Statements

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## 13 Leases

### a) Amounts recognized in the balance sheet

The balance sheet reflects the following amounts relating to leases:

	December 31, 2020	December 31, 2019
<b>Right-of-use assets</b>		
Buildings	\$ 30,549	\$ 34,593
Equipment	9,226	6,310
	\$ 39,775	\$ 40,903
<b>Lease liabilities</b>		
Buildings	\$ 36,501	\$ 40,357
Equipment	9,502	6,471
Total lease liabilities	46,003	46,828
Less, current portion of lease liabilities	(8,298)	(8,297)
Long term lease liabilities	\$ 37,705	\$ 38,531
<b>Additions to the right of-of-use assets during the financial year:</b>		
Buildings	\$ -	\$ 546
Equipment	5,749	1,467
	\$ 5,749	\$ 2,013

### b) Amounts recognized in the statement of earnings

The statement of earnings reflects the following amounts relating to leases:

	December 31, 2020	December 31, 2019
<b>Depreciation charge of right-of-use assets</b>		
Buildings	\$ 4,130	\$ 4,097
Equipment	2,854	3,268
	\$ 6,984	\$ 7,365
Interest expense (included in finance expense)	\$ 1,944	\$ 2,070
Expense relating to short-term leases (included in delivery and corporate expenses)	-	57
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	33	38
The total cash outflow for leases	\$ 8,199	\$ 8,856



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## c) Reconciliation of expected lease liabilities

Lease liabilities	December 31, 2020	December 31, 2019
Balance at January 1,	\$ 46,828	\$ 3,030
Adjustment for change in accounting policy	-	48,668
Right of use asset additions	5,749	2,013
Interest expense	1,944	1,620
Cash payment of lease payments	(8,630)	(8,487)
Effect of movement in exchange rates	112	(16)
Total lease liabilities	46,003	46,828
Less current portion of lease liabilities	(8,298)	(8,297)
Long term lease liabilities	\$ 37,705	\$ 38,531

## 14 Income taxes

A reconciliation of the expected income tax expense to the actual income tax expense is as follows:

	2020	2019
Current tax:		
Current tax expense on profits for the year	\$ 1,234	\$ 1,722
Total current tax expense	1,234	1,722
Deferred tax:		
Origination and reversal of temporary differences	1,133	1,501
Impact of substantively enacted rates and other	250	(323)
Total deferred tax expense	\$ 1,383	\$ 1,178

The tax on the Corporation's earnings differs from the theoretical amount that would arise using the weighted average tax rate applicable to earnings of the consolidated entities as follows:

	2020	2019
Earnings before income taxes	\$ 6,399	\$ 13,806
Non-taxable items	(1,112)	(209)
Income subject to tax	5,287	13,597
Income tax at statutory rate of 25.86% (2019 - 26.74%)	1,367	3,636
Difference between Canadian and foreign tax rates	782	(195)
Impact of substantively enacted rates and other	468	(541)
Income tax expense	\$ 2,617	\$ 2,900

The analysis of the deferred tax assets and deferred tax liabilities is as follows:

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	2020	2019
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	\$ (12,850)	\$ (12,085)
Deferred tax asset to be recovered within 12 months	-	-
	<b>(12,850)</b>	<b>(12,085)</b>
Deferred tax liabilities:		
Deferred tax liability to be recovered after more than 12 months	21,212	20,545
Deferred tax liability to be recovered within 12 months	5,636	4,132
	<b>26,848</b>	<b>24,677</b>
Deferred tax liabilities, net	<b>\$ 13,998</b>	<b>\$ 12,592</b>

The movement of deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdictions, is as follows:

Deferred tax assets	Lease Liabilities	Provisions	Offering costs and other	Total
At January 1, 2019	\$ -	\$ (530)	\$ (1,800)	\$ (2,330)
Charged (credited) to the statement of earnings	777	(33)	1,269	2,013
Change in accounting policy	(11,774)	-	-	(11,774)
Related to movements in exchange rates	2	-	4	6
At December 31, 2019	\$ (10,995)	\$ (563)	\$ (527)	\$ (12,085)
Charged (credited) to the statement of earnings	201	15	(937)	(721)
Related to movements in exchange rates	(31)	-	(13)	(44)
<b>At December 31, 2020</b>	<b>\$ (10,825)</b>	<b>\$ (548)</b>	<b>\$ (1,477)</b>	<b>\$ (12,850)</b>

Deferred tax liabilities	Linen in service	Property, plant and equipment	Intangible assets and Goodwill	LTIP and other	Total
At January 1, 2019	\$ 4,176	\$ 7,479	\$ 2,804	\$ -	\$ 14,459
Charged (credited) to the statement of earnings	(44)	(806)	(416)	431	(835)
Change in accounting policy	-	11,106	-	-	11,106
Related to movements in exchange rates	-	(11)	(42)	-	(53)
At December 31, 2019	\$ 4,132	\$ 17,768	\$ 2,346	\$ 431	\$ 24,677
Charged (credited) to the statement of earnings	1,504	1,682	(985)	(97)	2,104
Related to movements in exchange rates	-	46	21	-	67
<b>At December 31, 2020</b>	<b>\$ 5,636</b>	<b>\$ 19,496</b>	<b>\$ 1,382</b>	<b>\$ 334</b>	<b>\$ 26,848</b>

## 15 Contingencies and commitments

### a) Contingencies

The Corporation has standby letters of credit issued as part of normal business operations in the amount of \$650 (December 31, 2019 – \$1,150) which will remain outstanding for an indefinite period of time.

# Notes to the Consolidated Financial Statements

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Grievances for unspecified damages were lodged against the Corporation in relation to labor 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 \$1,852 related to restructuring costs through the statement of earnings, with \$884 remaining as a current liability on the Corporation's consolidated statement of financial position, refer to Note 10.

## b) Commitments

### Utility commitments

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

2021	\$	5,170
2022		-
2023		-
2024		-
2025		-
Subsequent		-
	\$	5,170

### Linen purchase commitments

At December 31, 2020, the Corporation was committed to linen expenditure obligations in the amount of \$4,527 (December 31, 2019 – \$9,821) to be incurred within the next year.

### Property, plant and equipment commitments

At December 31, 2020, the Corporation was committed to capital expenditure obligations in the amount of \$42 (December 31, 2019 – \$641) to be incurred within the next year.

### Trust funds on deposit

The Corporation maintains funds in trust for a customer to facilitate both parties in achieving their shared objectives. These funds are not available for the Corporation's general operating activities and, as such, have not been recorded in the accompanying Consolidated Statements of Financial Position. As at December 31, 2020, the Corporation held trust funds on deposit in the amount of \$630 (2019 – \$605).

## 16 Share Capital

### a) Authorized

The Corporation is authorized to issue an unlimited number of common shares and such number of shares of one class designated as preferred shares which number shall not exceed 1/3 of the common shares issued and outstanding from time to time.

# Notes to the Consolidated Financial Statements

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## b) Issued

	2020	2019
Balance, beginning of year	10,604,382	10,559,936
Common shares issued under LTI	72,507	44,446
Balance, end of year	10,676,889	10,604,382
Unvested common shares held in trust for LTI	79,423	64,924

## 17 Earnings per share

### a) Basic

Basic earnings per share is calculated by dividing the net earnings attributable to equity holders of the Corporation by the weighted average number of ordinary shares in issue during the year.

	2020	2019
Net earnings	\$ 3,782	\$ 10,906
Weighted average number of shares outstanding (thousands)	10,557	10,508
Net earnings per share, basic	\$ 0.36	\$ 1.04

The basic net earnings per share calculation excludes the unvested Common shares held by the LTIP Account.

### b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares to assume conversion of all dilutive potential ordinary shares.

	2020	2019
Basic weighted average shares for the year	10,557,147	10,508,080
Dilutive effect of LTI shares	72,090	63,267
Diluted weighted average shares for the year	10,629,237	10,571,347
	2020	2019
Net earnings	\$ 3,782	\$ 10,906
Weighted average number of shares outstanding (thousands)	10,629	10,571
Net earnings per share, diluted	\$ 0.36	\$ 1.03

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## 18 Long-Term Incentive Plan

An account was formed to hold equity grants issued under the terms of the LTI on behalf of the participants (the "LTIP Account") and under certain circumstances the Corporation may be the beneficiary of forfeited Common shares held by the LTIP Account. The Corporation has control over the LTIP Account as it is exposed, or has rights, to variable returns and has the ability to affect those returns through its power over the LTIP Account. Therefore the Corporation has consolidated the LTIP Account. Compensation expense is recorded by the Corporation in the period earned. Dividends paid by the Corporation with respect to unvested Common shares held by the LTIP Account are paid to LTI participants. Unvested Common shares held by the LTIP Account are shown as a reduction of shareholders' equity.

	2020		2019	
	Unvested	Vested	Unvested	Vested
Balance, beginning of year	64,924	493,972	63,346	451,104
Issued during year	49,301	23,206	30,122	14,324
Vested during year	(34,802)	34,802	(28,544)	28,544
Balance, end of year	79,423	551,980	64,924	493,972

The cost of the 79,423 (2019 - 64,924) unvested Common shares held by the LTIP Account at December 31, 2020 was nil (2019 - nil).

## 19 Dividends to shareholders

During the year ended December 31, 2020, the Corporation declared total dividends to shareholders of \$12,783 or \$1.200 per share (2019 - \$12,707 or \$1.200 per share).

The Corporation's policy is to pay dividends to Shareholders of its available cash to the maximum extent possible consistent with good business practice considering requirements for capital expenditures, working capital, growth capital and other reserves considered advisable by the Directors of the Corporation. All such dividends are discretionary. Dividends are declared payable each month to the Shareholders on the last business day of each month and are paid by the 15th day of the following month.

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

	2020	2019
Accounts receivable	\$ 6,847	\$ (1,514)
Linen in service	(3,731)	174
Prepaid expenses and deposits	134	(136)
Accounts payable and other liabilities <sup>(1)</sup>	(1,527)	(1,765)
Income taxes payable / receivable	749	5,107
	\$ 2,472	\$ 1,866

- 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 paid for during 2020 (\$1,725) and 2019 (\$4,090).
- 2) Net change in the current provision (note 10) represent restructure costs accrued for during 2020 - \$884, and in 2019 - nil.

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## 21 Financial instruments

### a) Fair value

The Corporation's financial instruments at December 31, 2020 and 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.

### b) Financial risk management

The Corporation's activities are exposed to a variety of financial risks: price risk, credit risk and liquidity risk. The Corporation's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Corporation's financial performance. Risk management is carried out by financial management in conjunction with overall corporate governance.

### c) Price risk

#### Currency risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar.

The Corporation's operations in Canada are not significantly exposed to foreign currency risk as all revenues are received in Canadian dollars and minimal expenses are incurred in foreign currencies.

The Corporation's operations in the UK transacts in Sterling pounds £, with minimal revenue and expenses that are incurred in other foreign currencies. The Corporation is sensitive to foreign exchange risk arising from the translation of the financial statements of subsidiaries with a functional currency other than the Canadian dollar impacting other comprehensive income (loss).

For large capital expenditure commitments denominated in a foreign currency, the Corporation will enter into foreign exchange forward contracts if considered prudent to mitigate this risk.

Based on financial instrument balances as at December 31, 2020, a strengthening or weakening of \$0.01 of the Canadian dollar to the U.S. dollar with all other variables held constant could have a favorable or unfavorable impact of approximately \$1, respectively, on net earnings.

Based on financial instrument balances as at December 31, 2020, a strengthening or weakening of \$0.01 of the Canadian dollar to the Sterling pounds £, with all other variables held constant could have an unfavorable or favorable impact of approximately \$2, respectively, on other comprehensive loss.

#### Interest rate risk

The Corporation is subject to interest rate risk as its credit facility bears interest at rates that depend on certain financial ratios of the Corporation and vary in accordance with market interest rates. Based on the credit facility at year end, the sensitivity to a 100 basis point movement in interest rates would result in an impact of \$407 (2019 - \$625) to net earnings.

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## Other price risk

The Corporation's exposure to other price risk is limited since there are no significant financial instruments which fluctuate as a result of changes in market prices.

## d) Credit risk

The Corporation has financial assets that are subject to the expected credit loss model. The Corporation's financial assets that are exposed to credit risk consist of cash and cash equivalents and accounts receivable. The Corporation, in the normal course of business, is exposed to credit risk from its customers.

Management believes that the risks associated with concentrations of credit risk with respect to accounts receivable are limited due to the generally short payment terms, and the nature of the customers, which are primarily publicly funded health care entities. The credit risk associated with cash and cash equivalents is minimized by ensuring these financial assets are held with Canadian chartered banks and Standard Chartered Bank United Kingdom.

## Cash and cash equivalents

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

## Accounts receivable

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 have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 60 months before December 31, 2020 or January 1, 2020 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Corporation has identified the GDP and the unemployment rate of the countries in which it provides services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at December 31, 2020 and 2019 was determined as follows for trade receivables:

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December 31, 2019	Gross	Allowance	Net
Current	\$ 26,634	\$ -	\$ 26,634
1 to 60 days	6,464	-	6,464
61 to 90 days	1,164	-	1,164
Greater than 90 days	732	94	638
	\$ 34,994	\$ 94	\$ 34,900

December 31, 2020	Gross	Allowance	Net
Current	\$ 22,436	\$ -	\$ 22,436
1 to 60 days	4,495	-	4,495
61 to 90 days	1,144	-	1,144
Greater than 90 days	300	267	33
	\$ 28,375	\$ 267	\$ 28,108

While the Corporation evaluates a customer's credit worthiness before credit is extended, provisions for potential credit losses are also maintained. The change in allowance for doubtful accounts was as follows:

	2020	2019
Opening loss allowance at January 1,	\$ 94	\$ 105
Adjustments made during the year	640	105
Write-offs	(468)	(114)
Effect of movements in exchange rates	1	(2)
Balance, end of year	\$ 267	\$ 94

## e) Liquidity risk

The Corporation's accounts payable, dividend payable and other liabilities are due within one year.

Payments due under contractual obligations on an undiscounted basis for the next five years and thereafter are as follows:

(thousands)	Payments due by Period				
	Total	2021	2022 to 2023	2024 to 2025	Subsequent
Long-term debt	\$ 40,657	-	40,657	-	-
Lease liabilities	\$ 61,539	8,335	14,423	11,648	27,133
Utility commitments	\$ 5,170	5,170	-	-	-
Linen purchase obligations	\$ 4,527	4,527	-	-	-
Property, plant and equipment commitments	\$ 42	42	-	-	-

The Corporation has a credit facility with a maturity date of July 31, 2022 (Note 11). The degree to which the Corporation is leveraged may reduce its ability to obtain additional financing for working capital and to finance investments to maintain and grow the current levels of cash flows from operations. The Corporation may be unable to extend the maturity date of the credit facility.



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The Corporation's capital structure includes working capital, a committed revolving credit facility and share capital. The Corporation continuously monitors actual and forecast cash flows and monitors the availability on our committed credit facility to ensure sufficient liquidity is available.

To reduce liquidity risk, management has historically renewed the terms of the credit facility in advance of its maturity dates and the Corporation has maintained financial ratios that management believes are conservative compared to financial covenants applicable to the credit facility. A significant portion of the available facility remains undrawn.

Management measures liquidity risk through comparisons of current financial ratios with financial covenants contained in the credit facility.

## 22 Capital management

The Corporation's primary objectives when managing its capital structure are as follows:

- maintain financial flexibility and availability of capital in order to meet financial obligations, provide dividends, execute growth plans, and to continue growth through business acquisitions;
- manage the Corporation's activities in a responsible way in order to provide an adequate return for its shareholders, while taking a conservative approach towards financial leverage and management of financial risk; and
- comply with financial covenants required under the credit facility.

The Corporation pays a dividend which reduces its ability to internally finance growth and expansion. However the availability of the Corporation's revolving line of credit provides sufficient access to capital to allow K-Bro to take advantage of acquisition opportunities. The merits of the dividend are periodically evaluated by the Board.

The Corporation monitors its capital structure and financing requirements using non-GAAP financial metrics required under its Credit Facility debt covenants, consisting of Funded Debt to Credit Facility EBITDA ratio and Total Fixed Charge Coverage ratio. The Funded Debt, Credit Facility EBITDA, and Total Fixed Charge Coverage are defined under the terms of the Credit Facility (see Note 11) and do not have any standardized meaning prescribed under IFRS. It is therefore unlikely to be comparable to similar measures presented by other companies. Debt covenant restrictions will vary due to the timing of Material Transactions as defined under the terms of the Credit Facility.

The Corporation's capital structure is comprised of borrowings under its credit facility, shareholders' equity, less cash and cash equivalents.

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	Years Ended December 31,	
	2020	2019
Long-term debt, including current portion	\$ 40,657	\$ 62,494
Issued and outstanding letters of credit	650	1,150
Shareholders' equity	189,504	196,051
	230,811	259,695
Less: Cash and cash equivalents	(2,416)	(5,301)
	\$ 228,395	\$ 254,394

The Corporation's financing strategy is to maintain a flexible structure consistent with the objectives stated above, to respond adequately to changes in economic conditions and to allow growth organically and through business acquisitions. In order to maintain and adjust its capital structure, the Corporation may issue new shares in the market, contract bank loans and negotiate new credit facilities.

As part of its operational strategy, to mitigate the impact of COVID-19 the Corporation reduced its planned capital spending through the deferral of any capital projects that were not critical to the Corporation's operations.

## 23 Related party transactions

The Corporation transacts with key individuals from management and with the Board who have authority and responsibility to plan, direct and control the activities of the Corporation. The nature of these dealings were in the form of payments for services rendered in their capacity as Directors (retainers and meeting fees, including share-based payments) and as employees of the Corporation (salaries, benefits, short-term bonuses and share-based payments).

Key management personnel are defined as the executive officers of the Corporation including the President and Chief Executive Officer, Senior Vice-President, Chief Financial Officer and one employee acting in the capacity of Managing Director, UK.

During 2020 and 2019, remuneration to directors and key management personnel was as follows:

	2020	2019
Salaries and retainer fees	\$ 1,868	\$ 1,882
Short-term bonus incentives	993	967
Post-employment benefits	64	64
Share-based payments	1,469	1,446
	\$ 4,394	\$ 4,359

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 Years ended December 31, 2020, the Corporation incurred such fees totaling \$138 (2019– \$138).

# Notes to the Consolidated Financial Statements

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## 24 Expenses by nature

	2020	2019
Wages and benefits	\$ 81,868	\$ 118,851
Linen	24,780	27,463
Utilities	11,644	16,427
Delivery	12,480	15,567
Materials and supplies	8,126	10,172
Occupancy costs	3,704	4,675
Repairs and maintenance	7,006	8,761
Other expenses	8,739	2,921
	\$ 158,347	\$ 204,837

During the year ended December 31, 2020, wages and benefits reflected in the table above includes an offset of government grants recognized in the year of \$14,255 (\$0 – 2019).

## 25 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.

### 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.

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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 years ended December 31, 2020, from these four major customers the Corporation has recorded revenue of \$108,559 (2019 – \$102,460), representing 55.2% (2019 – 40.6%) of total revenue.

	2020		2019	
Healthcare	\$ 144,715	73.6%	\$ 132,620	52.6%
Hospitality	21,967	11.2%	54,004	21.4%
<b>Canadian division</b>	<b>\$ 166,682</b>	<b>84.8%</b>	<b>\$ 186,624</b>	<b>74.0%</b>
Healthcare	\$ 6,488	3.3%	\$ 6,404	2.5%
Hospitality	23,421	11.9%	59,382	23.5%
<b>UK division</b>	<b>\$ 29,909</b>	<b>15.2%</b>	<b>\$ 65,786</b>	<b>26.0%</b>
<b>Total segment revenue</b>	<b>\$ 196,591</b>	<b>100.0%</b>	<b>\$ 252,410</b>	<b>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.

2020	Canadian division	UK division	Total
Net earnings (loss)	\$ 10,892	\$ (7,110)	\$ 3,782
EBITDA	\$ 38,365	\$ (121)	\$ 38,244

2019	Canadian division	UK division	Total
Net earnings	\$ 7,787	\$ 3,119	\$ 10,906
EBITDA	\$ 35,843	\$ 11,730	\$ 47,573

The Canadian division net earnings includes non-cash employee share based compensation expense of \$1,799 (2019 – \$1,810).

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## Segment assets

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

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

At December 31, 2020	Canadian division	UK division	Total
Total assets	\$ 243,414	\$ 80,397	\$ 323,811
Other:			
Cash and cash equivalents	(679)	(1,737)	(2,416)
<b>Total segment assets</b>	<b>\$ 242,735</b>	<b>\$ 78,660</b>	<b>\$ 321,395</b>

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)
<b>Total segment assets</b>	<b>\$ 260,560</b>	<b>\$ 86,198</b>	<b>\$ 346,758</b>

## 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 December 31, 2020	Canadian division	UK division	Total
Total liabilities	\$ 112,229	\$ 22,078	\$ 134,307
Other:			
Long-term debt (note 11)	(40,657)	-	(40,657)
<b>Total segment liabilities</b>	<b>\$ 71,572</b>	<b>\$ 22,078</b>	<b>\$ 93,650</b>

At December 31, 2019	Canadian division	UK division	Total
Total liabilities	\$ 132,156	\$ 23,852	\$ 156,008
Other:			
Long-term debt (note 11)	(62,494)	-	(62,494)
<b>Total segment liabilities</b>	<b>\$ 69,662</b>	<b>\$ 23,852</b>	<b>\$ 93,514</b>

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## 26 Impairment of assets

### a) Impairment testing at March 31, 2020

Management assessed that impairment indicators existed at March 31, 2020, specifically for the five CGUs that rely primarily on hospitality revenues as a result of the significant impact that COVID-19 had on the hospitality industry.

For the five CGUs who rely primarily on hospitality revenues an impairment test was completed using a probability-weighted discounted cash flow approach whereby the recoverable amount was based on the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU).

The key assumptions in calculating the recoverable amount of the five CGU's 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 the March 31, 2020 impairment test, management's probability weighted approach was evaluated based on 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 2020 and 50% for 2021, with sales returning to normalized levels thereafter with sales growth estimates used between 2% to 3%.

As a result of this testing 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. The table below summarizes the impairment details:

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	\$ 6,001

### b) Impairment testing at December 31, 2020

The Corporation performed its annual assessment for goodwill impairment for the Canadian division and for the UK division as at December 31, 2020 in accordance with its policy described in Note 2(k).

At December 31, 2020, the recoverable amount for the CGUs was determined using either a probability-weighted discounted cash flow approach (hospitality CGUs) or an earnings multiple approach (healthcare CGUs). The Corporation references Board approved budgets and cash flow

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forecasts, trailing twelve-month EBITDA, implied multiples and appropriate discount rates in the valuation calculations.

For the healthcare CGUs whereby the earnings multiple approach is used the implied multiple is calculated by utilizing the average multiples of comparable public companies. For the healthcare CGU's, the Corporation used implied average forward multiples that ranged from 12.7 to 12.9 to calculate the recoverable amounts. For these CGUs, based on testing performed at December 31, 2020 no impairment was determined to exist.

For the hospitality CGUs the probability weight discounted cash flow approach was used at both March 31, 2020 and December 31, 2020 to capture the increased risk and uncertainty arising from COVID-19.

For the December 31, 2020 impairment test, management's probability weighted approach was evaluated based on an equally weighted probability of a continued two year downturn in sales to the worst case of a three year downturn in sales. The scenarios estimated a decline of 45% for 2021, 30% for 2022, and 5% for 2023 with sales returning to normalized levels thereafter with sales growth estimates used 2%. This contrasts to the March 31, 2020 impairment test which contemplated a decline in 2020 and 2021 revenues only. As at December 31, 2020, for the goodwill associated with the remaining hospitality CGUs (the UK Division, Vancouver 2 and Victoria) the recoverable amounts was estimated to be £41,070, \$21,300 and \$6,484 respectively which exceeded the carrying amounts of the CGUs. No further impairment was therefore required for any of these CGUs.

The key assumptions in calculating the recoverable amount of the remaining CGU's were as follows:

	December 31, 2020
Long-term growth rate %	2.0%
Pre-tax discount rate %	11.6% to 12.5%

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 that could cause the carrying amount of these CGUs to exceed the recoverable amount. The table below summarizes the sensitivity of the key assumptions.

	Recoverable Amount	Sensitivity	
		Long-term Growth Rate decrease of 1%	Pre-tax discount rate increase of 1%
UK Division	£41,070	-£3,869	-£4,652
Vancouver 2 Division	\$21,300	-\$2,295	-\$2,785
Victoria	\$6,484	-\$695	-\$845

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The Corporation will continue to carefully monitor the situation as it pertains to the COVID-19 pandemic and further consider if there are new, or additional indicators, that exist during fiscal 2021.

With the ongoing evolution of the COVID-19 pandemic, the length and severity of these developments is subject to significant uncertainty. Accordingly, new developments 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.

## 27 Subsequent Events

### a) Dividends

The Corporation's Board of Directors declared an eligible dividend of \$0.10 per Common share of the Corporation payable on each of February 12, March 15, and April 15, 2021 to Shareholders of record on January 31, February 28, and March 31, 2021, respectively.

### b) Alberta Healthcare Contract Extension

On March 1, 2021, the Corporation was awarded a 1 year extension to provide laundry and linen services to Alberta Health Services Calgary. The contract extends the existing relationship between the Corporation and Alberta Health Services Calgary.