



**K·BRO**

Interim  
Condensed  
Consolidated  
Financial  
Statements  
Q2, 2021



# Interim Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	June 30, 2021	December 31, 2020
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 639	\$ 2,416
Accounts receivable	35,522	28,108
Income tax receivable	364	370
Prepaid expenses and deposits	4,103	4,231
Linen in service	28,663	31,549
	69,291	66,674
<b>Property, plant and equipment (note 4)</b>	<b>210,335</b>	<b>208,660</b>
<b>Intangible assets</b>	<b>8,306</b>	<b>9,980</b>
<b>Goodwill</b>	<b>38,225</b>	<b>38,497</b>
	<b>\$ 326,157</b>	<b>\$ 323,811</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 23,115	\$ 24,620
Provisions	703	884
Contract liability	1,158	1,259
Lease liabilities	8,817	8,298
Income taxes payable	2,728	2,623
Dividends payable to shareholders	1,072	1,068
	37,593	38,752
<b>Long-term debt (note 5)</b>	<b>40,696</b>	<b>40,657</b>
<b>Lease liabilities</b>	<b>44,506</b>	<b>37,705</b>
<b>Provisions</b>	<b>2,682</b>	<b>2,789</b>
<b>Contract liability</b>	<b>-</b>	<b>406</b>
<b>Deferred income taxes</b>	<b>12,422</b>	<b>13,998</b>
	<b>\$ 137,899</b>	<b>\$ 134,307</b>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b>	<b>205,422</b>	<b>204,869</b>
<b>Contributed surplus</b>	<b>2,673</b>	<b>2,281</b>
<b>Deficit</b>	<b>(20,449)</b>	<b>(19,079)</b>
<b>Accumulated other comprehensive income</b>	<b>612</b>	<b>1,433</b>
	<b>\$ 188,258</b>	<b>\$ 189,504</b>
<b>Contingencies and commitments (note 6)</b>	<b>\$ 326,157</b>	<b>\$ 323,811</b>

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

# Interim Condensed Consolidated Statements of Earnings & Comprehensive Income

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
<b>Revenue</b>	\$ 52,675	\$ 37,520	\$ 100,289	\$ 94,795
<b>Expenses</b>				
Wages and benefits	18,803	11,087	36,258	33,769
Linen	6,700	5,223	12,783	11,901
Utilities	2,938	2,109	5,752	5,685
Delivery	5,280	3,525	9,902	10,543
Occupancy costs	1,003	497	1,868	1,660
Materials and supplies	1,921	1,229	3,700	3,358
Repairs and maintenance	1,691	1,415	3,421	3,565
Corporate	2,134	2,380	4,339	5,005
Gain on disposal of property, plant and equipment	-	-	-	(5)
Impairment of assets (note 12)	-	-	-	5,516
	40,470	27,465	78,023	80,997
<b>EBITDA</b>	12,205	10,055	22,266	13,798
<b>Other expenses</b>				
Depreciation of property, plant and equipment (note 4)	5,862	5,891	11,740	12,006
Amortization of intangible assets	848	962	1,710	1,928
Finance expense	901	791	1,766	1,984
	7,611	7,644	15,216	15,918
<b>Earnings (loss) before income taxes</b>	4,594	2,411	7,050	(2,120)
Current income tax expense (recovery)	1,680	(219)	3,569	(83)
Deferred income tax (recovery) expense	(497)	1,017	(1,564)	(242)
<b>Income tax expense (recovery)</b>	1,183	798	2,005	(325)
<b>Net earnings (loss)</b>	\$ 3,411	\$ 1,613	\$ 5,045	\$ (1,795)
<b>Other comprehensive income (loss)</b>				
Items that may be subsequently reclassified to earnings:				
Foreign currency translation differences on foreign operations	(681)	(2,785)	(821)	(1,265)
<b>Total comprehensive income (loss)</b>	\$ 2,730	\$ (1,172)	\$ 4,224	\$ (3,060)
<b>Net earnings (loss) per share:</b>				
Basic	\$ 0.32	\$ 0.15	\$ 0.48	\$ (0.17)
Diluted	\$ 0.32	\$ 0.15	\$ 0.47	\$ (0.17)
<b>Weighted average number of shares outstanding:</b>				
Basic	10,603,415	10,551,443	10,600,457	10,545,450
Diluted	10,672,659	10,626,893	10,661,731	10,609,815

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

# Interim Condensed Consolidated Statements of Changes in Equity

(unaudited, thousands of Canadian dollars)

	Total Share Capital		Contributed surplus		Accumulated other comprehensive income		Total equity			
				Deficit						
<b>As at December 31, 2020</b>	\$	204,869	\$	2,281	\$	(19,079)	\$	1,433	\$	189,504
Total comprehensive income (loss)		-		-		5,045		(821)		4,224
Dividends declared (note 7)		-		-		(6,415)		-		(6,415)
Employee share based compensation expense		-		945		-		-		945
Shares vested during the period		553		(553)		-		-		-
<b>As at June 30, 2021</b>	\$	205,422	\$	2,673	\$	(20,449)	\$	612	\$	188,258

	Total Share Capital		Contributed surplus		Accumulated other comprehensive income (loss)		Total equity			
				Deficit						
<b>As at December 31, 2019</b>	\$	203,110	\$	2,241	\$	(10,078)	\$	778	\$	196,051
Total comprehensive loss		-		-		(1,795)		(1,265)		(3,060)
Dividends declared (note 7)		-		-		(6,377)		-		(6,377)
Employee share based compensation expense		-		696		-		-		696
Shares vested during the period		583		(583)		-		-		-
<b>As at June 30, 2020</b>	\$	203,693	\$	2,354	\$	(18,250)	\$	(487)	\$	187,310

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

# Interim Condensed Consolidated Statements of Cash Flow

(unaudited, thousands of Canadian dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
<b>OPERATING ACTIVITIES</b>				
<b>Net earnings (loss)</b>	\$ 3,411	\$ 1,613	\$ 5,045	\$ (1,795)
Depreciation of property, plant and equipment (note 4)	5,862	5,891	11,740	12,006
Amortization of intangible assets	848	962	1,710	1,928
Gain on forgiveness of lease liabilities	-	(464)	-	(464)
Accretion expense	6	7	43	152
Employee share based compensation expense	439	189	945	696
Gain on disposal of property, plant and equipment	-	-	-	(5)
Impairment of assets (note 12)	-	-	-	5,516
Deferred income taxes	(497)	1,017	(1,564)	(242)
	<b>10,069</b>	<b>9,215</b>	<b>17,919</b>	<b>17,792</b>
Change in non-cash working capital items (note 8)	(7,022)	(2,926)	(6,330)	85
Cash provided by operating activities	<b>3,047</b>	<b>6,289</b>	<b>11,589</b>	<b>17,877</b>
<b>FINANCING ACTIVITIES</b>				
Net proceeds (repayment) of revolving debt (note 5)	3,885	1,723	39	(6,078)
Principal elements of lease payments	(1,742)	(1,487)	(3,594)	(3,153)
Dividends paid to shareholders	(3,207)	(3,188)	(6,410)	(6,369)
Cash used in financing activities	<b>(1,064)</b>	<b>(2,952)</b>	<b>(9,965)</b>	<b>(15,600)</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	(2,073)	(1,396)	(3,260)	(4,275)
Proceeds from disposal of property, plant and equipment	-	7	-	7
Purchase of intangible assets	(156)	-	(156)	-
Cash used in investing activities	<b>(2,229)</b>	<b>(1,389)</b>	<b>(3,416)</b>	<b>(4,268)</b>
Change in cash and cash equivalents during the period	(246)	1,948	(1,792)	(1,991)
Effect of exchange rate changes on cash and cash equivalents	9	(84)	15	(127)
Cash and cash equivalents, beginning of period	876	1,319	2,416	5,301
Cash and cash equivalents, end of period	\$ 639	\$ 3,183	\$ 639	\$ 3,183
<b>Supplementary cash flow information</b>				
Interest paid	\$ 692	\$ 971	\$ 1,500	\$ 2,079
Income taxes paid	\$ 3,464	\$ 64	\$ 3,464	\$ 1,337

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

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2021 and 2020)

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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 August 5, 2021.

## 1 Basis of Presentation

These unaudited Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as published in the CPA Canada Handbook (IFRS), as applicable to interim financial reports including IAS 34, *Interim Financial Reporting*, and should be read in conjunction with the annual consolidated audited financial statements for the year ended December 31, 2020 which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board, and GAAP as issued by CPA Canada. The accounting policies followed in these unaudited Interim Condensed Consolidated Financial Statements are consistent with those of the previous year, except as described below.

### Recent Developments and Impact on Estimation Uncertainty

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

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

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2021 and 2020)

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## 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.

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 outbreak affects our earnings will depend on the length of time the hospitality industry continues to experience reduced occupancy rates. Earnings will continue to be particularly affected if we continue to experience 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.

## 2 New Accounting Pronouncements Adopted

The Corporation adopted the following accounting standards and amendments that were effective for our interim and annual consolidated financial statements commencing January 1, 2021. These changes did not have a material impact on our financial results and are not expected to have a material impact in the future.

### 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.

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

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2021 and 2020)

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benchmark rate.

There is significant uncertainty over the timing of when the replacements for IBORs will be effective and what those replacements will be. We will actively monitor the IBOR reform and consider circumstances as we renew or enter into new financial instruments.

### 3 New standards and interpretations not yet adopted

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

The IASB has issued the following new standard and amendments to existing standards that will become effective in future years.

- Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction, that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023.
- Amendments to IFRS 3, Business Combinations - Updating a Reference to the Conceptual Framework, updating a reference to the Conceptual Framework.
- Amendments to IAS 1, Presentation of Financial Statements - Disclosure of Accounting Policies, requiring entities to disclose material, instead of significant, accounting policy information.
- Amendments to IAS 1, Presentation of Financial Statements - Classification of Liabilities as Current or Noncurrent, clarifying requirements for the classification of liabilities as non-current.
- Amendments to IAS 8, Accounting Policies - Changes in Accounting Estimates and Errors, clarifying the definition of "accounting policies" and "accounting estimates".
- Amendments to IAS 16, Property, Plant and Equipment: Proceeds before intended use, prohibiting reducing the cost of property, plant, and equipment by proceeds while bringing an asset to capable operations.
- Amendments to IFRS 16 - COVID-19 rent concession amendment – extension amended to extend the date of the practical expedient from June 30, 2021 to June 30, 2022 (original amendment provided lessees with an optional practical expedient from assessing whether a rent concession related to COVID-19 is a lease modification). Effective for years beginning on or after April 1, 2021.
- IAS 37, Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts, specifying costs an entity should include in determining the "cost of fulfilling" a potential onerous contract.

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. The Corporation will continue to assess the impacts, if any, the amendments to existing standards will have on our consolidated financial statements, but we currently do not expect any material impacts.



# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2021 and 2020)

## 4 Property, plant and equipment

	Land	Buildings	Laundry Equipment <sup>(1)</sup>	Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements	Spare Parts	Total
<b>Year ended, December 31, 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)(5)</sup>	-	1	2,329	64	5,725	145	43	-	8,307
Disposals	-	-	(2)	-	-	-	-	-	(2)
Transfers	-	-	153	-	-	-	-	(153)	-
Depreciation charge	-	(5,229)	(11,289)	(144)	(2,933)	(459)	(3,994)	-	(24,048)
Impairment of assets <sup>(4)</sup>	-	(207)	(2,113)	-	(5)	(14)	-	-	(2,339)
Effect of movement in exchange rates	19	125	191	1	70	-	4	-	410
<b>Closing 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>
<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>
<b>Period ended, June 30, 2021</b>									
Opening net book amount	\$ 4,062	\$ 47,214	\$ 108,973	\$ 230	\$ 9,435	\$ 380	\$ 36,663	\$ 1,703	\$ 208,660
Additions <sup>(2)(3)(5)</sup>	-	10,784	2,622	94	398	83	(82)	7	13,906
Depreciation charge	-	(2,698)	(5,422)	(68)	(1,492)	(144)	(1,916)	-	(11,740)
Effect of movement in exchange rates	(24)	(155)	(217)	(3)	(87)	-	(5)	-	(491)
<b>Closing net book amount</b>	<b>\$ 4,038</b>	<b>\$ 55,145</b>	<b>\$ 105,956</b>	<b>\$ 253</b>	<b>\$ 8,254</b>	<b>\$ 319</b>	<b>\$ 34,660</b>	<b>\$ 1,710</b>	<b>\$ 210,335</b>
<b>At June 30, 2021</b>									
Cost	\$ 4,038	\$ 72,396	\$ 191,753	\$ 1,198	\$ 16,598	\$ 3,311	\$ 60,059	\$ 1,710	\$ 351,063
Accumulated impairment losses	-	(207)	(2,113)	-	(5)	(14)	-	-	(2,339)
Accumulated depreciation	-	(17,044)	(83,684)	(945)	(8,339)	(2,978)	(25,399)	-	(138,389)
<b>Net book amount</b>	<b>\$ 4,038</b>	<b>\$ 55,145</b>	<b>\$ 105,956</b>	<b>\$ 253</b>	<b>\$ 8,254</b>	<b>\$ 319</b>	<b>\$ 34,660</b>	<b>\$ 1,710</b>	<b>\$ 210,335</b>

- (1) Included in laundry equipment are assets under development in the amount of \$2,049 (2020 - \$24). These assets are not available for service and accordingly are not presently being depreciated.
- (2) Total property, plant and equipment additions are inclusive of amounts incurred in the period that are yet to be paid, with amounts remaining in accounts payable and accrued liabilities of \$-17 (2020 - \$312).
- (3) Additions include amounts from the Canadian Division of \$12,735 (2020 - \$2,544) and from the UK Division of \$1,171 (2020 - \$5,763).
- (4) 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 12.
- (5) Includes ROUA additions from the Canadian Division of \$10,036 (2020 - \$1,065) and from the UK Division of \$1,067 (2020 - \$4,684).

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2021 and 2020)

## 5 Long-term debt

	Prime Rate Loan <sup>(1)</sup>
At January 1, 2020	\$ 62,494
Net repayment of debt	(21,837)
Closing balance at December 31, 2020	\$ 40,657
At January 1, 2021	\$ 40,657
Net proceeds from debt	39
Closing balance at June 30, 2021	\$ 40,696

- (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, 2024. 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 3.25x. The required calculated Funded Debt / Credit Facility EBITDA financial ratio is subject to change based off certain terms and conditions. As at June 30, 2021 the combined interest rate was 2.70% (December 31, 2020 – 2.70%).

On June 30, 2021, the Corporation completed amendments to its existing revolving credit facility, which extended the agreement to July 31, 2024 from July 31, 2022.

During 2020, in consideration of the ongoing COVID-19 pandemic, management requested temporary changes to the terms and conditions of the credit facility. These temporary covenant changes as well as the restriction on dividends expired on June 30, 2021 and the Corporation must now observe a maximum Funded Debt to EBITDA covenant of 3.25x and a maximum Fixed Charge covenant of 1.2x

Under the credit facility, the Corporation is required, among other conditions, to respect certain covenants on a consolidated basis. The main covenants are in regard to its Funded Debt to Credit Facility EBITDA ratio and Total Fixed Charge Coverage ratio. Management reviews compliance with these covenants on a quarterly basis in conjunction with filing requirements under its credit facility. All covenants have been met as at June 30, 2021 and December 31, 2020.

The Corporation has a revolving credit facility of up to \$100,000 plus a \$25,000 accordion of which \$42,459 is utilized (including letters of credit totaling \$1,763) as at June 30, 2021. Interest payments only are due during the term of the facility.

Drawings under the revolving credit facility are available by way of Bankers' Acceptances, Canadian prime rate loans, Libor or UK pounds based loans, letters of credit or standby letters of guarantee. Drawings under the revolving credit facility bear interest at a floating rate, plus an applicable margin based on certain financial performance ratios.

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

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

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2021 and 2020)

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

## 6 Contingencies and commitments

### a) Contingencies

The Corporation has standby letters of credit issued as part of normal business operations in the amount of \$1,763 (December 31, 2020 – \$650) which will remain outstanding for an indefinite period of time.

Grievances for unspecified damages were lodged against the Corporation in relation to labour matters. The Corporation has disclaimed liability and is defending the actions. It is not practical to estimate the potential effect of these grievances but legal advice indicates that it is not probable that a significant liability will arise.

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 and into 2021. During 2020 the Corporation recognized a provision of \$1,852 related to restructuring costs through the statement of earnings, with \$703 (December 31, 2020 – \$884) remaining as a current liability on the Corporation's Consolidated Statements of Financial Position.

### b) Commitments and contractual obligations

#### (i) Utility commitments

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

Remainder of 2021	\$	3,317
2022		-
2023		-
2024		-
2025		-
Subsequent		-
	\$	3,317

#### (ii) Linen purchase commitments

At June 30, 2021, the Corporation was committed to linen expenditure obligations in the amount of \$8,398 (December 31, 2020 – \$4,527) to be incurred within the next year.

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

At June 30, 2021, the Corporation was committed to capital expenditure obligations in the amount of \$7,715 (December 31, 2020 – \$42) to be incurred within the next year.

#### (iv) 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 June 30, 2021, the Corporation held trust funds on deposit in the amount of \$739 (December 31, 2020 – \$630).

# Notes to the Interim Condensed Consolidated Financial Statements

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2021 and 2020)

## 7 Dividends to shareholders

During the three months ended June 30, 2021, the Corporation declared total dividends to shareholders of \$3,211 or \$0.300 per share (2020 - \$3,196 or \$0.300 per share). During the six months ended June 30, 2021, the Corporation declared total dividends to shareholders of \$6,415 or \$0.600 per share (2020 - \$6,377 or \$0.600 per share).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Accounts receivable	\$ (6,472)	\$ 1,737	\$ (7,509)	\$ 5,335
Linen in service	337	(1,793)	2,741	(2,631)
Prepaid expenses and deposits	260	203	93	56
Accounts payable and other liabilities <sup>(1)</sup>	636	(2,795)	(1,760)	(1,284)
Income taxes payable / receivable	(1,783)	(278)	105	(1,391)
	\$ (7,022)	\$ (2,926)	\$ (6,330)	\$ 85

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) accrued for in 2021 of (\$172) and 2020 of \$25.

## 9 Financial instruments

The Corporation's financial instruments at June 30, 2021 and December 31, 2020 consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, lease liabilities, dividends payable to shareholders, and long term debt. The carrying value of accounts receivable, accounts payable and accrued liabilities, lease liabilities, and dividends payable to shareholders approximate fair value due to the immediate or short-term maturity of these financial instruments. The fair value of the Corporation's interest-bearing debt approximates the respective carrying amount due to the floating rate nature of the debt.

### Credit Risk

As per the Corporation's existing policy for accounts receivable as disclosed in the Corporation's annual Consolidated Financial Statements for the year ended December 31, 2020, the Corporation applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

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

On that basis, the loss allowance as at June 30, 2021 was reviewed by management and adjusted for accordingly based off adjusted historical loss rates, in addition to considering the impact of the COVID-19 pandemic to credit risk and the incremental risk to the hospitality industry. With the COVID-19 pandemic, management has taken extra steps to mitigate the additional credit risk with a detailed

# Notes to the Interim Condensed Consolidated Financial Statements

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review of amounts that are not current. This includes detailed assessments of the recoverability of accounts receivable balances of each customer taking into account historic collection trends, the contractual relationship with the customer and the nature of the customer.

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

## 10 Related party transactions

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by a Director. The amounts charged are recorded at their exchange amounts and are subject to normal trade terms. For the three months ended June 30, 2021, the Corporation incurred such fees totaling \$34.5 (2020– \$34.5). For the six months ended June 30, 2021, the Corporation incurred such fees totaling \$69.0 (2020– \$69.0).

## 11 Segmented information

The Chief Executive Officer (“CEO”) is the Corporation’s chief operating decision-maker. The Chief Executive Officer examines the Corporation’s performance and allocation of resources both from geographic perspective and service type, and has identified two reportable segments of its business:

1. Canadian division - provides laundry and linen services to the healthcare and hospitality sectors through nine operating divisions located in Vancouver, Victoria, Calgary, Edmonton, Regina, Toronto, Montréal, and Québec City. Management has assessed that the services offered and the economic characteristics associated with these divisions are similar, and therefore they have been aggregated into one reportable segment which operates exclusively in Canada.
2. UK division - provides laundry and linen services primarily to the hospitality sector, with other sectors including healthcare, manufacturing and pharmaceutical, through six sites which are located in Cupar, Perth, Newcastle, Livingston and Coatbridge.

The aggregation assessment requires significant judgment by management. Economic indicators used by management to assess the economic characteristics are the gross margin and the growth rate of each division.

The CEO primarily uses a measure of EBITDA to assess the performance of the operating segments. In addition, the CEO also receives information about the segments’ revenue and assets on a monthly basis.

### a) Segment revenue

The Corporation disaggregates revenue from contracts with customers by geographic location and customer-type for each of our segments, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

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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, 2022, in Vancouver the major customer is contractually committed to March 1, 2027, and in Saskatchewan the major customer is contractually committed to June 1, 2025. For the six months ended June 30, 2021, from these four major customers the Corporation has recorded revenue of \$60,030 (2020 – \$50,618), representing 59.8% (2020 – 53.4%) of total revenue.

	Six Months Ended June 30, 2021		Six Months Ended June 30, 2020	
Healthcare	\$ 82,539	82.3%	\$ 66,993	70.7%
Hospitality	6,319	6.3%	12,071	12.7%
<b>Canadian division</b>	<b>\$ 88,858</b>	<b>88.6%</b>	<b>\$ 79,064</b>	<b>83.4%</b>
Healthcare	\$ 3,231	3.2%	\$ 3,158	3.3%
Hospitality	8,200	8.2%	12,573	13.3%
<b>UK division</b>	<b>\$ 11,431</b>	<b>11.4%</b>	<b>\$ 15,731</b>	<b>16.6%</b>
<b>Total segment revenue</b>	<b>\$ 100,289</b>	<b>100.0%</b>	<b>\$ 94,795</b>	<b>100.0%</b>

## 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.

Six Months Ended June 30, 2021	Canadian division	UK division	Total
Net earnings (loss)	\$ 8,617	\$ (3,572)	\$ 5,045
EBITDA	\$ 22,380	\$ (114)	\$ 22,266

Six Months Ended June 30, 2020	Canadian division	UK division	Total
Net earnings (loss)	\$ 1,988	\$ (3,783)	\$ (1,795)
EBITDA	\$ 14,368	\$ (570)	\$ 13,798

The Canadian division net earnings includes non-cash employee share based compensation expense of \$945 (2020 – \$696).

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## c) Segment assets

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

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

<b>At June 30, 2021</b>	<b>Canadian division</b>	<b>UK division</b>	<b>Total</b>
Total assets	\$ 247,512	\$ 78,645	\$ 326,157
Other:			
Cash and cash equivalents	(230)	(409)	(639)
<b>Total segment assets</b>	<b>\$ 247,282</b>	<b>\$ 78,236</b>	<b>\$ 325,518</b>

<b>At December 31, 2020</b>	<b>Canadian division</b>	<b>UK division</b>	<b>Total</b>
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>

## d) Segment liabilities

Segment liabilities are measured in the same way as in the financial statements. These liabilities are allocated based on the operations of the segment. The Corporation's borrowings are not considered to be segment liabilities, but are managed by the treasury function.

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<b>At June 30, 2021</b>	<b>Canadian division</b>	<b>UK division</b>	<b>Total</b>
Total liabilities	\$ 115,289	\$ 22,610	\$ 137,899
Other:			
Long-term debt (note 5)	(40,696)	-	(40,696)
<b>Total segment liabilities</b>	<b>\$ 74,593</b>	<b>\$ 22,610</b>	<b>\$ 97,203</b>

<b>At December 31, 2020</b>	<b>Canadian division</b>	<b>UK division</b>	<b>Total</b>
Total liabilities	\$ 112,229	\$ 22,078	\$ 134,307
Other:			
Long-term debt (note 5)	(40,657)	-	(40,657)
<b>Total segment liabilities</b>	<b>\$ 71,572</b>	<b>\$ 22,078</b>	<b>\$ 93,650</b>

## 12 Impairment of assets

### 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:

	<b>March 31, 2020</b>
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%.



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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

Based on management's review, there were no CGUs as at June 30, 2021 showing signs of impairment that were not already considered at March 31, 2020 and updated as required at December 31, 2020. The Corporation will continue to carefully monitor the situation as it pertains to COVID-19 and further consider if there are new, or additional indicators, that exist during the year.

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

## 13 Government Grants

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

### Canadian Division

- 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 six months ended June 30, 2021, the Corporation submitted claims of \$921 (2020 - \$5,551) under the CEWS program, with the majority of the amounts received with only \$368 (2020 - \$0) outstanding in receivables on the Corporation's Consolidated Statements of financial position at June 30, 2021. The Corporation will continue to evaluate its eligibility under the CEWS program through the balance of 2021.

### UK division

- 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 six months ended June 30, 2021, the Corporation submitted claims of £2,092 (\$3,653) (2020 - £2,049 (\$3,526)) under the CJRS program with the majority of the amounts received with only £69 (\$119) (2020 - £0.4 (\$595)) outstanding in receivables on the Corporation's Consolidated Statements of financial position at June 30, 2021. 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 six months ended June 30, 2021, \$4,574 (2020 - \$9,077) of government grants were offset to operating expenses which includes, wages and benefits of \$3,138 (2020 - \$6,771), delivery of \$1,123 (2020 - \$1,526), and corporate costs of \$313 (2020 - \$780).

## 14 Subsequent events

### a) Dividends

On July 15, 2021, the Board declared an eligible dividend of \$0.1000 per common share of the Corporation payable on August 13, 2021 to shareholders of record on July 31, 2021.

On August 5, 2021, the Board declared an eligible dividend of \$0.1000 per common share of the Corporation payable on September 15, 2021 to shareholders of record on August 31, 2021.

### b) AHS Contract Award

On July 26, 2021, the Corporation announced the signing of a new 11-year contract, with renewal options for up to an additional 9 years, to provide laundry and linen services for AHS province-wide. This contract replaces existing contracts AHS has with the Corporation which are also referenced in note 11(a).