



K·BRO

Interim
Condensed
Consolidated
Financial
Statements
Q3, 2021



Interim Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	September 30, 2021	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,900	\$ 2,416
Accounts receivable	39,017	28,108
Income tax receivable	364	370
Prepaid expenses and deposits	4,229	4,231
Linen in service	30,206	31,549
	75,716	66,674
Property, plant and equipment (note 4)	208,939	208,660
Intangible assets	7,617	9,980
Goodwill	38,222	38,497
	\$ 330,494	\$ 323,811
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 30,926	\$ 24,620
Provisions	703	884
Contract liability	991	1,259
Lease liabilities	8,709	8,298
Income taxes payable	2,838	2,623
Dividends payable to shareholders	1,072	1,068
	45,239	38,752
Long-term debt (note 5)	38,270	40,657
Lease liabilities	43,032	37,705
Provisions	2,717	2,789
Contract liability	-	406
Deferred income taxes	13,563	13,998
	\$ 142,821	\$ 134,307
SHAREHOLDERS' EQUITY		
Share capital	205,465	204,869
Contributed surplus	3,116	2,281
Deficit	(21,516)	(19,079)
Accumulated other comprehensive income	608	1,433
	\$ 187,673	\$ 189,504
Contingencies and commitments (note 6)	\$ 330,494	\$ 323,811

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

Interim Condensed Consolidated Statements of Earnings & Comprehensive Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue	\$ 61,493	\$ 51,439	\$ 161,782	\$ 146,234
Expenses				
Wages and benefits	24,028	16,963	60,286	50,732
Linen	7,415	6,371	20,198	18,272
Utilities	3,720	2,849	9,472	8,534
Delivery	6,809	5,128	16,711	15,671
Occupancy costs	939	941	2,807	2,601
Materials and supplies	2,541	1,891	6,241	5,249
Repairs and maintenance	1,963	1,804	5,384	5,369
Corporate	2,481	2,773	6,820	7,778
Gain on disposal of property, plant and equipment	-	-	-	(5)
Impairment of assets (note 12)	-	-	-	5,516
	49,896	38,720	127,919	119,717
EBITDA	11,597	12,719	33,863	26,517
Other expenses				
Depreciation of property, plant and equipment (note 4)	5,927	5,885	17,667	17,891
Amortization of intangible assets	857	955	2,567	2,883
Finance expense	883	1,141	2,649	3,125
	7,667	7,981	22,883	23,899
Earnings before income taxes	3,930	4,738	10,980	2,618
Current income tax expense (recovery)	632	(924)	4,201	(1,007)
Deferred income tax expense (recovery)	1,150	2,220	(414)	1,978
Income tax expense	1,782	1,296	3,787	971
Net earnings	\$ 2,148	\$ 3,442	\$ 7,193	\$ 1,647
Other comprehensive income (loss)				
Items that may be subsequently reclassified to earnings:				
Foreign currency translation differences on foreign operations	(4)	1,334	(825)	69
Total comprehensive income	\$ 2,144	\$ 4,776	\$ 6,368	\$ 1,716
Net earnings per share:				
Basic	\$ 0.20	\$ 0.33	\$ 0.68	\$ 0.16
Diluted	\$ 0.20	\$ 0.32	\$ 0.67	\$ 0.15
Weighted average number of shares outstanding:				
Basic	10,611,024	10,562,663	10,604,170	10,551,230
Diluted	10,699,841	10,666,540	10,677,525	10,631,404

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

Interim Condensed Consolidated Statements of Changes in Equity

(unaudited, thousands of Canadian dollars)

	Total Share Capital		Contributed surplus		Accumulated other comprehensive income		Total equity			
					Deficit					
As at December 31, 2020	\$	204,869	\$	2,281	\$	(19,079)	\$	1,433	\$	189,504
Total comprehensive income (loss)		-		-		7,193		(825)		6,368
Dividends declared (note 7)		-		-		(9,630)		-		(9,630)
Employee share based compensation expense		-		1,431		-		-		1,431
Shares vested during the period		596		(596)		-		-		-
As at September 30, 2021	\$	205,465	\$	3,116	\$	(21,516)	\$	608	\$	187,673

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

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

Interim Condensed Consolidated Statements of Cash Flow

(unaudited, thousands of Canadian dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
OPERATING ACTIVITIES				
Net earnings	\$ 2,148	\$ 3,442	\$ 7,193	\$ 1,647
Depreciation of property, plant and equipment (note 4)	5,927	5,885	17,667	17,891
Amortization of intangible assets	857	955	2,567	2,883
Gain on forgiveness of lease liabilities	-	-	-	(464)
Accretion (recovery) expense	(3)	25	40	177
Employee share based compensation expense	486	693	1,431	1,389
Gain on disposal of property, plant and equipment	-	-	-	(5)
Impairment of assets (note 12)	-	-	-	5,516
Deferred income taxes	1,150	2,220	(414)	1,978
	10,565	13,220	28,484	31,012
Change in non-cash working capital items (note 8)	1,978	(13,724)	(4,352)	(13,639)
Cash provided by (used in) operating activities	12,543	(504)	24,132	17,373
FINANCING ACTIVITIES				
Net (repayment) proceeds of revolving debt (note 5)	(2,426)	2,909	(2,387)	(3,169)
Principal elements of lease payments	(1,765)	(1,442)	(5,359)	(4,595)
Dividends paid to shareholders	(3,216)	(3,203)	(9,626)	(9,572)
Cash used in financing activities	(7,407)	(1,736)	(17,372)	(17,336)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(3,703)	(47)	(6,963)	(4,322)
Proceeds from disposal of property, plant and equipment	-	-	-	7
Purchase of intangible assets	(160)	-	(316)	-
Cash used in investing activities	(3,863)	(47)	(7,279)	(4,315)
Change in cash and cash equivalents during the period	1,273	(2,287)	(519)	(4,278)
Effect of exchange rate changes on cash and cash equivalents	(12)	102	3	(25)
Cash and cash equivalents, beginning of period	639	3,183	2,416	5,301
Cash and cash equivalents, end of period	\$ 1,900	\$ 998	\$ 1,900	\$ 998
Supplementary cash flow information				
Interest paid	\$ 857	\$ 950	\$ 2,357	\$ 3,029
Income taxes paid (recovered)	\$ 522	\$ (789)	\$ 3,986	\$ 548

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

Notes to the Interim Condensed Consolidated Financial Statements

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

K-Bro Linen Inc. (the "Corporation" or "K-Bro") is incorporated in Canada under the Business Corporations Act (Alberta). K-Bro is the largest owner and operator of laundry and linen processing facilities in Canada and a market leader for laundry and textile services in Scotland and the North East of England. K-Bro and its wholly owned subsidiaries, operate across Canada and the United Kingdom ("UK"), provide a range of linen services to healthcare institutions, hotels and other commercial organizations that include the processing, management and distribution of general linen and operating room linen.

The Corporation's operations in Canada include nine processing facilities and two distribution centres under three distinctive brands, including K-Bro Linen Systems Inc., Buanderie HMR and Les Buanderies Dextraze, in ten Canadian cities: Québec City, Montréal, Toronto, Regina, Saskatoon, Prince Albert, Edmonton, Calgary, Vancouver and Victoria.

The Corporation's operations in the UK include Fishers Topco Ltd. ("Fishers") which was acquired by K-Bro on November 27, 2017. Fishers was established in 1900 and is an operator of laundry and linen processing facilities in Scotland, providing linen rental, workwear hire and cleanroom garment services to the hospitality, healthcare, manufacturing and pharmaceutical sectors. Fishers' client base includes major hotel chains and prestigious venues across Scotland and the North East of England. The company operates in five cities, in Scotland and the North East of England with facilities in Cupar, Perth, Newcastle, Livingston and Coatbridge.

The Corporation's common shares are traded on the Toronto Stock Exchange under the symbol "KBL". The address of the Corporation's registered head office is 14903 – 137 Avenue, Edmonton, Alberta, Canada.

These unaudited Interim Condensed Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors ("the Board") on November 8, 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 nine months ended September 30, 2021 and 2020)

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 nine months ended September 30, 2021 and 2020)

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 nine months ended September 30, 2021 and 2020)

4 Property, plant and equipment

	Land	Buildings	Laundry Equipment ⁽¹⁾	Office Equipment	Delivery Equipment	Computer Equipment	Leasehold Improvements	Spare Parts	Total
Year ended, December 31, 2020									
Opening net book amount	\$ 4,043	\$ 52,524	\$ 119,704	\$ 309	\$ 6,578	\$ 708	\$ 40,610	\$ 1,856	\$ 226,332
Additions ⁽²⁾⁽³⁾⁽⁵⁾	-	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 ⁽⁴⁾	-	(207)	(2,113)	-	(5)	(14)	-	-	(2,339)
Effect of movement in exchange rates	19	125	191	1	70	-	4	-	410
Closing net book amount	\$ 4,062	\$ 47,214	\$ 108,973	\$ 230	\$ 9,435	\$ 380	\$ 36,663	\$ 1,703	\$ 208,660
At December 31, 2020									
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)
Net book amount	\$ 4,062	\$ 47,214	\$ 108,973	\$ 230	\$ 9,435	\$ 380	\$ 36,663	\$ 1,703	\$ 208,660
Period ended, September 30, 2021									
Opening net book amount	\$ 4,062	\$ 47,214	\$ 108,973	\$ 230	\$ 9,435	\$ 380	\$ 36,663	\$ 1,703	\$ 208,660
Additions ⁽²⁾⁽³⁾⁽⁵⁾	-	10,784	6,917	95	577	86	(45)	19	18,433
Depreciation charge	-	(4,200)	(8,164)	(98)	(2,214)	(201)	(2,790)	-	(17,667)
Effect of movement in exchange rates	(24)	(152)	(221)	(2)	(84)	-	(4)	-	(487)
Closing net book amount	\$ 4,038	\$ 53,646	\$ 107,505	\$ 225	\$ 7,714	\$ 265	\$ 33,824	\$ 1,722	\$ 208,939
At September 30, 2021									
Cost	\$ 4,038	\$ 72,394	\$ 196,039	\$ 1,199	\$ 16,776	\$ 3,314	\$ 60,096	\$ 1,722	\$ 355,578
Accumulated impairment losses	-	(207)	(2,113)	-	(5)	(14)	-	-	(2,339)
Accumulated depreciation	-	(18,541)	(86,421)	(974)	(9,057)	(3,035)	(26,272)	-	(144,300)
Net book amount	\$ 4,038	\$ 53,646	\$ 107,505	\$ 225	\$ 7,714	\$ 265	\$ 33,824	\$ 1,722	\$ 208,939

- (1) Included in laundry equipment are assets under development in the amount of \$4,398 (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 \$592 (2020 - \$312).
- (3) Additions include amounts from the Canadian Division of \$16,781 (2020 - \$2,544) and from the UK Division of \$1,652 (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 \$10,142 (2020 - \$1,065), comprised of buildings of \$9,942 (2020 - \$0) and vehicles of \$200 (2020 - \$1,065). From the UK Division, ROUA additions were \$1,139 (2020 - \$4,684), comprised of buildings of \$0 (2020 - \$0) and vehicles of \$1,139 (2020 - \$4,684). This has resulted in corresponding increases to the lease liabilities in the amount of \$10,142 (2020 - \$1,065) for the Canadian Division and \$1,139 (2020 - \$4,684) for the UK Division.

Notes to the Interim Condensed Consolidated Financial Statements

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

5 Long-term debt

	Prime Rate Loan ⁽¹⁾
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 repayment of debt	(2,387)
Closing balance at September 30, 2021	\$ 38,270

- (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 September 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 September 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 \$40,033 is utilized (including letters of credit totaling \$1,763) as at September 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 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.

Notes to the Interim Condensed Consolidated Financial Statements

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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	\$	1,833
2022		1,897
2023		1,897
2024		1,899
2025		1,519
Subsequent		656
	\$	9,701

(ii) Linen purchase commitments

At September 30, 2021, the Corporation was committed to linen expenditure obligations in the amount of \$6,556 (December 31, 2020 – \$4,527) to be incurred within the next year.

(iii) Property, plant and equipment commitments

At September 30, 2021, the Corporation was committed to capital expenditure obligations in the amount of \$5,794 (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 September 30, 2021, the Corporation held trust funds on deposit in the amount of \$777 (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 nine months ended September 30, 2021 and 2020)

7 Dividends to shareholders

During the three months ended September 30, 2021, the Corporation declared total dividends to shareholders of \$3,216 or \$0.300 per share (2020 - \$3,203 or \$0.300 per share). During the nine months ended September 30, 2021, the Corporation declared total dividends to shareholders of \$9,630 or \$0.900 per share (2020 - \$9,580 or \$0.900 per share).

8 Net change in non-cash working capital items

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Accounts receivable	\$ (3,516)	\$ (12,723)	\$ (11,025)	\$ (7,388)
Linen in service	(1,556)	(1,888)	1,185	(4,519)
Prepaid expenses and deposits	(125)	647	(32)	703
Accounts payable and other liabilities ⁽¹⁾	7,065	404	5,305	(880)
Income taxes payable / receivable	110	(164)	215	(1,555)
	<u>\$ 1,978</u>	<u>\$ (13,724)</u>	<u>\$ (4,352)</u>	<u>\$ (13,639)</u>

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 \$609 and 2020 of \$5.

9 Financial instruments

The Corporation's financial instruments at September 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 September 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

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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 September 30, 2021, the Corporation incurred such fees totaling \$35 (2020 – \$35). For the nine months ended September 30, 2021, the Corporation incurred such fees totaling \$104 (2020 – \$104).

11 Segmented information

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

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

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

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

a) Segment revenue

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

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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 and Calgary, the Corporation is the significant supplier of laundry and linen services to the entity which manages all major healthcare facilities in the region and is contractually committed to July 31, 2032. In Vancouver the major customer is contractually committed to March 1, 2027, and in Saskatchewan the major customer is contractually committed to June 1, 2025. For the nine months ended September 30, 2021, from these three major customers the Corporation has recorded revenue of \$87,350 (2020 – \$78,387), representing 54.0% (2020 – 53.6%) of total revenue.

	Nine Months Ended September 30, 2021		Nine Months Ended September 30, 2020	
Healthcare	\$ 120,103	74.3%	\$ 104,410	71.4%
Hospitality	14,924	9.2%	17,699	12.1%
Canadian division	\$ 135,027	83.5%	\$ 122,109	83.5%
Healthcare	\$ 4,894	3.0%	\$ 4,812	3.3%
Hospitality	21,861	13.5%	19,313	13.2%
UK division	\$ 26,755	16.5%	\$ 24,125	16.5%
Total segment revenue	\$ 161,782	100.0%	\$ 146,234	100.0%

b) Segment net earnings and EBITDA

Segment net earnings and EBITDA are calculated consistent with the presentation in the financial statements. The net earnings and EBITDA is allocated based on the operations of the segment, and where the earnings and costs are generated from.

Nine Months Ended September 30, 2021	Canadian division	UK division	Total
Net earnings (loss)	\$ 11,561	\$ (4,368)	\$ 7,193
EBITDA	\$ 31,890	\$ 1,973	\$ 33,863

Nine Months Ended September 30, 2020	Canadian division	UK division	Total
Net earnings (loss)	\$ 6,392	\$ (4,745)	\$ 1,647
EBITDA	\$ 26,414	\$ 103	\$ 26,517

The Canadian division net earnings includes non-cash employee share based compensation expense of \$1,431 (2020 – \$1,389).

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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.

At September 30, 2021	Canadian division	UK division	Total
Total assets	\$ 249,227	\$ 81,267	\$ 330,494
Other:			
Cash and cash equivalents	(60)	(1,840)	(1,900)
Total segment assets	\$ 249,167	\$ 79,427	\$ 328,594

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)
Total segment assets	\$ 242,735	\$ 78,660	\$ 321,395

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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At September 30, 2021	Canadian division	UK division	Total
Total liabilities	\$ 117,290	\$ 25,531	\$ 142,821
Other:			
Long-term debt (note 5)	(38,270)	-	(38,270)
Total segment liabilities	\$ 79,020	\$ 25,531	\$ 104,551

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

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:

	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%.

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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 September 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 nine months ended September 30, 2021, the Corporation submitted claims of \$921 (2020 - \$7,690) under the CEWS program, with the majority of the amounts received with only \$195 (2020 - \$556) outstanding in receivables on the Corporation's Consolidated Statements of financial position at September 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 nine months ended September 30, 2021, the Corporation submitted claims of £1,623 (\$2,818) (2020 - £2,650 (\$4,560)) under the CJRS program with the majority of the amounts received with only £15 (\$27) (2020 - £50 (\$87)) outstanding in receivables on the Corporation's Consolidated Statements of financial position at September 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 nine months ended September 30, 2021, \$3,739 (2020 - \$12,250) of government grants were offset to operating expenses which includes, wages and benefits of \$2,628 (2020 - \$9,125), delivery of \$863 (2020 - \$2,044), and corporate costs of \$248 (2020 - \$1,081).

14 Subsequent events

a) Dividends

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

On November 8, 2021, the Board declared an eligible dividend of \$0.1000 per common share of the Corporation payable on December 15, 2021 to shareholders of record on November 30, 2021.