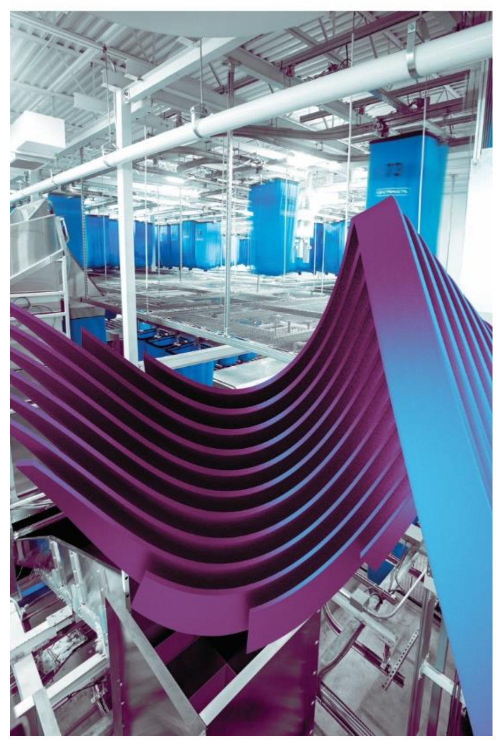
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Q3, 2022



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Interim Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	September 30, 2022	December 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,708	$ 1,110
Accounts receivable	36,974	36,847
Income tax receivable	1,252	-
Prepaid expenses and deposits	4,214	4,475
Linen in service	32,717	31,340
	76,865	73,772
Assets classified as held for sale (note 4)	644	-
	77,509	73,772
Property, plant and equipment (note 4)	203,466	213,526
Intangible assets	4,488	6,989
Goodwill	36,064	38,232
	$ 321,527	$ 332,519
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 35,762	$ 30,114
Provisions	480	703
Contract liability	181	810
Lease liabilities	8,609	9,206
Income taxes payable	-	1,596
Dividends payable to shareholders	1,077	1,072
	46,109	43,501
Long-term debt (note 5)	39,141	37,973
Lease liabilities	43,433	47,733
Provisions	3,699	2,811
Deferred income taxes	14,135	14,100
	$ 146,517	$ 146,118
SHAREHOLDERS' EQUITY		
Share capital	207,287	206,660
Contributed surplus	3,089	2,338
Deficit	(29,285)	(23,233)
Accumulated other comprehensive (loss) income	(6,081)	636
	$ 175,010	$ 186,401
Contingencies and commitments (note 6)		
	$ 321,527	$ 332,519

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

Interim Condensed Consolidated Statements of Earnings & Comprehensive Income (Loss)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	**2022**	2021
Revenue	**$ 73,628**	$ 61,493	**$ 205,952**	$ 161,782
Expenses				
Wages and benefits	**29,802**	24,028	**82,910**	60,286
Linen	**8,107**	7,415	**23,100**	20,198
Utilities	**6,050**	3,720	**17,722**	9,472
Delivery	**9,816**	6,809	**27,587**	16,711
Occupancy costs	**1,168**	939	**3,379**	2,807
Materials and supplies	**2,384**	2,541	**7,968**	6,241
Repairs and maintenance	**2,587**	1,963	**7,300**	5,384
Corporate (note 12)	**2,694**	2,481	**8,244**	6,820
Remeasurement expense	**(1)**	-	**(24)**	-
	62,607	49,896	**178,186**	127,919
EBITDA	**11,021**	11,597	**27,766**	33,863
Other expenses				
Depreciation of property, plant and equipment (note 4)	**5,854**	5,927	**17,646**	17,667
Amortization of intangible assets	**612**	857	**1,917**	2,567
Finance expense	**1,340**	883	**3,341**	2,649
	7,806	7,667	**22,904**	22,883
Earnings before income taxes	**3,215**	3,930	**4,862**	10,980
Current income tax expense	**753**	632	**1,139**	4,201
Deferred income tax expense (recovery)	**6**	1,150	**97**	(414)
Income tax expense	**759**	1,782	**1,236**	3,787
Net earnings	**$ 2,456**	$ 2,148	**$ 3,626**	$ 7,193
Other comprehensive income and (loss)				
Items that may be subsequently reclassified to earnings:				
Foreign currency translation differences on foreign operations	**(2,045)**	(4)	**(6,717)**	(825)
Total comprehensive income (loss)	**$ 411**	$ 2,144	**$ (3,091)**	$ 6,368
Net earnings per share:				
Basic	**$ 0.23**	$ 0.20	**$ 0.34**	$ 0.68
Diluted	**$ 0.23**	$ 0.20	**$ 0.34**	$ 0.67
Weighted average number of shares outstanding:				
Basic	**10,659,322**	10,611,024	**10,650,136**	10,604,170
Diluted	**10,750,072**	10,699,841	**10,722,741**	10,677,525

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

Interim Condensed Consolidated Statements of Changes in Equity

(unaudited, thousands of Canadian dollars)

	Total Share Capital	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total equity
As at December 31, 2021	$ 206,660	$ 2,338	$ (23,233)	$ 636	$ 186,401
Total comprehensive income (loss)	-	-	3,626	(6,717)	(3,091)
Dividends declared (note 7)	-	-	(9,678)	-	(9,678)
Employee share based compensation expense	-	1,378	-	-	1,378
Shares vested during the period	627	(627)	-	-	-
As at September 30, 2022	$ 207,287	$ 3,089	$ (29,285)	$ (6,081)	$ 175,010

	Total Share Capital	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total equity
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

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,	
	2022	2021	**2022**	2021
OPERATING ACTIVITIES				
Net earnings	**$ 2,456**	$ 2,148	**$ 3,626**	$ 7,193
Depreciation of property, plant and equipment (note 4)	**5,854**	5,927	**17,646**	17,667
Amortization of intangible assets	**612**	857	**1,917**	2,567
Accretion expense	**959**	(3)	**1,066**	40
Employee share based compensation expense	**438**	486	**1,378**	1,431
Remeasurement expense	**1**	-	**(24)**	-
Deferred income tax expense (recovery)	**6**	1,150	**97**	(414)
	10,326	10,565	**25,706**	28,484
Change in non-cash working capital items (note 8)	**1,204**	1,978	**(625)**	(4,352)
Cash provided by operating activities	**11,530**	12,543	**25,081**	24,132
FINANCING ACTIVITIES				
Net (repayment) proceeds from revolving debt (note 5)	**(6,083)**	(2,426)	**1,168**	(2,387)
Principal elements of lease payments	**(1,834)**	(1,765)	**(5,489)**	(5,359)
Dividends paid to shareholders	**(3,240)**	(3,216)	**(9,678)**	(9,626)
Cash used in financing activities	**(11,157)**	(7,407)	**(13,999)**	(17,372)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(3,064)**	(3,703)	**(10,193)**	(6,963)
Purchase of intangible assets	**(33)**	(160)	**(88)**	(316)
Cash used in investing activities	**(3,097)**	(3,863)	**(10,281)**	(7,279)
Change in cash and cash equivalents during the period	**(2,724)**	1,273	**801**	(519)
Effect of exchange rate changes on cash and cash equivalents	**(80)**	(12)	**(203)**	3
Cash and cash equivalents, beginning of period	**4,512**	639	**1,110**	2,416
Cash and cash equivalents, end of period	**$ 1,708**	$ 1,900	**$ 1,708**	$ 1,900
Supplementary cash flow information				
Interest paid	**$ 1,114**	$ 857	**$ 2,871**	$ 2,357
Income taxes paid	**$ 1,333**	$ 522	**$ 4,356**	$ 3,986

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, 2022 and 2021)

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 9, 2022.

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, 2021 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.

COVID-19 Risk and Geopolitical Stability

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 an adverse impact on the Corporation's hospitality business. While government-imposed restrictions eased significantly over the course of 2022, and vaccination rates continued to rise, the uncertainty regarding the ongoing COVID-19 pandemic remains a threat to the continued recovery in the Corporation's hospitality business. The COVID-19 pandemic has also contributed to unusually competitive labour markets, causing inefficiencies in attracting, training and retaining employees. While the Corporation anticipates labour markets will stabilize, the timing remains uncertain.

In addition to this, certain geopolitical events and other factors have resulted in rising and unstable commodity costs for key inputs such as natural gas, electricity and diesel. In the event these cost increases exceed price increase mechanisms this could have an adverse effect on our business prospects and results of operations.

The Corporation's Credit Facility is subject to floating interest rates and, therefore, is subject to fluctuations in interest rates which are beyond the Corporation's control. Increases in interest rates, both domestically and internationally, could negatively affect the Corporation's cost of financing its operations and investments.

The duration and full financial effects of the COVID-19 pandemic, geopolitical events and rising interest rates, continue to be uncertain at this time. The Corporation is managing ongoing risks 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.

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 pandemic, geopolitical events and rising interest rates 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, 2022. These changes did not have a material impact on our financial results and are not expected to have a material impact in the future.

- Amendments to IFRS 3, Business Combinations - Updating a Reference to the Conceptual Framework, to clarify that an acquirer does not recognize contingent assets acquired in a business combination.
- Amendments to 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.
- 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.

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 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 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.

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, 2022 and 2021)

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, 2021									
Opening net book amount	$ 4,062	$ 47,214	$ 108,973	$ 230	$ 9,435	$ 380	$ 36,663	$ 1,703	$ 208,660
Additions [2,3,4]	-	16,849	10,206	115	1,535	176	46	43	28,970
Depreciation charge	-	(5,702)	(10,901)	(122)	(2,982)	(258)	(3,660)	-	(23,625)
Effect of movement in exchange rates	(23)	(151)	(216)	(1)	(84)	-	(4)	-	(479)
Closing net book amount	$ 4,039	$ 58,210	$ 108,062	$ 222	$ 7,904	$ 298	$ 33,045	$ 1,746	$ 213,526
At December 31, 2021									
Cost	$ 4,039	$ 78,464	$ 199,337	$ 1,220	$ 17,738	$ 3,404	$ 60,188	$ 1,746	$ 366,136
Accumulated impairment losses	-	(207)	(2,113)	-	(5)	(14)	-	-	(2,339)
Accumulated depreciation	-	(20,047)	(89,162)	(998)	(9,829)	(3,092)	(27,143)	-	(150,271)
Net book amount	$ 4,039	$ 58,210	$ 108,062	$ 222	$ 7,904	$ 298	$ 33,045	$ 1,746	$ 213,526
Period ended, September 30, 2022									
Opening net book amount	$ 4,039	$ 58,210	$ 108,062	$ 222	$ 7,904	$ 298	$ 33,045	$ 1,746	$ 213,526
Additions [2,3,4]	-	47	8,526	67	2,651	226	712	102	12,331
Disposals	-	-	-	-	(399)	-	-	-	(399)
Transfers	-	-	7	(7)	-	-	-	-	-
Assets classified as held for sale[5]	(604)	(40)	-	-	-	-	-	-	(644)
Depreciation charge	-	(4,482)	(8,105)	(68)	(2,232)	(188)	(2,571)	-	(17,646)
Effect of movement in exchange rates	(188)	(1,217)	(1,664)	(18)	(583)	-	(32)	-	(3,702)
Closing net book amount	$ 3,247	$ 52,518	$ 106,826	$ 196	$ 7,341	$ 336	$ 31,154	$ 1,848	$ 203,466
At September 30, 2022									
Cost	$ 3,247	$ 76,775	$ 205,036	$ 1,234	$ 18,740	$ 3,631	$ 60,870	$ 1,848	$ 371,381
Accumulated impairment losses	-	(207)	(2,112)	-	(4)	(14)	-	-	(2,337)
Accumulated depreciation	-	(24,050)	(96,098)	(1,038)	(11,395)	(3,281)	(29,716)	-	(165,578)
Net book amount	$ 3,247	$ 52,518	$ 106,826	$ 196	$ 7,341	$ 336	$ 31,154	$ 1,848	$ 203,466

(1) Included in laundry equipment are assets under development in the amount of $216 (2021 - $4,616). 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 be paid, with amounts remaining in accounts payable and accrued liabilities of $599 (2021 - $873).

(3) Additions include amounts from the Canadian Division of $9,473 (2021 - $26,287) and from the UK Division of $2,858 (2021 - $2,683).

(4) Includes ROUA additions from the Canadian Division of $1,506 (2021 - $16,135), comprised of buildings of $0 (2021 - $15,205) and vehicles of $1,506 (2021 - $930). From the UK Division, ROUA additions were $997 (2021 - $2,152), comprised of buildings of $0 (2021 - $1,594) and vehicles of $997 (2021 - $558). This has resulted in corresponding increases to the lease liabilities in the amount of $1,506 (2021 - $16,135) for the Canadian Division and $997 (2021 - $2,152) for the UK Division.

(5) Assets classified as held for sale are comprised of land and a building in Cupar, Scotland. A definitive agreement has been reached with an interested party and the sale is expected to be completed in Q4.

(unaudited, thousands of Canadian dollars except share and per share amounts, three and nine months ended September 30, 2022 and 2021)

5 Long-term debt

		Prime Rate Loan(1)
At January 1, 2021	$	40,657
Net repayment of debt		(2,684)
Closing balance at December 31, 2021	$	37,973
At January 1, 2022	**$**	**37,973**
Net proceeds from debt		**1,168**
Closing balance at September 30, 2022	**$**	**39,141**

(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, 2022 the combined interest rate was 5.70% (December 31, 2021 – 2.70%).

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

On July 18, 2022, the corporation completed an amendment to its existing revolving credit facility, which extended the agreement from July 31, 2024 to July 31, 2026.

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, 2022 and December 31, 2021.

The Corporation has a revolving credit facility of up to $100,000 plus a $25,000 accordion of which $40,897 is utilized (including letters of credit totaling $1,756) as at September 30, 2022. 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.

(unaudited, thousands of Canadian dollars except share and per share amounts, three and nine months ended September 30, 2022 and 2021)

6 Contingencies and commitments

a) Contingencies

The Corporation has standby letters of credit issued as part of normal business operations in the amount of $1,756 (December 31, 2021 – $2,389) 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 $1,844 related to restructuring costs through the statement of earnings, with $480 (December 31, 2021 – $703) 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 2022	$	3,238
2023		10,176
2024		10,178
2025		2,358
2026		1,495
Subsequent		-
	$	27,445

(ii) Linen purchase commitments

At September 30, 2022, the Corporation was committed to linen expenditure obligations in the amount of $6,404 (December 31, 2021 – $12,075) to be incurred within the next year.

(iii) Property, plant and equipment commitments

At September 30, 2022, the Corporation was committed to capital expenditure obligations in the amount of $2,569 (December 31, 2021 – $445) 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, 2022, the Corporation held trust funds on deposit in the amount of $927 (December 31, 2021 – $814).

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and nine months ended September 30, 2022 and 2021)

7 Dividends to shareholders

During the three months ended September 30, 2022, the Corporation declared total dividends to shareholders of $3,234 or $0.300 per share (September 30, 2021 - $3,216 or $0.300 per share). During the nine months ended September 30, 2022, the Corporation declared total dividends to shareholders of $9,678 or $0.900 per share (September 30, 2021 - $9,630 or $0.900 per share).

8 Net change in non-cash working capital items

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	**2022**	2021
Accounts receivable	**$ 528**	$ (3,516)	**$ (1,242)**	$ (11,025)
Linen in service	**56**	(1,556)	**(2,696)**	1,185
Prepaid expenses and deposits	**299**	(125)	**(71)**	(32)
Accounts payable and other liabilities (1)	**537**	7,065	**6,232**	5,305
Income taxes payable / receivable	**(216)**	110	**(2,848)**	215
	$ 1,204	$ 1,978	**$ (625)**	$ (4,352)

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 2022 of ($86) and 2021 of $609 .

9 Financial instruments

The Corporation's financial instruments at September 30, 2022 and December 31, 2021 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, 2021, 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, 2022 was reviewed by management and adjusted for accordingly based off adjusted historical loss rates, in addition to considering the impact of the COVID-19 pandemic to credit risk and the incremental risk to the hospitality industry. With the COVID-19 pandemic, management has taken extra steps to mitigate the additional credit risk with a detailed review of amounts that are not current. This includes detailed assessments of the recoverability of accounts receivable balances of each customer taking into account historic collection trends, the contractual relationship with the customer and the nature of the customer.

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

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, 2022, the Corporation incurred such fees totaling $35 (2021– $35). For the nine months ended September 30, 2022, the Corporation incurred such fees totaling $105 (2021– $104).

11 Segmented information

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

1. Canadian division - provides laundry and linen services to the healthcare and hospitality sectors through nine operating divisions located in Vancouver, Victoria, Calgary, Edmonton, Regina, Toronto, Montréal, and Québec City. Management has assessed that the services offered and the economic characteristics associated with these divisions are similar, and therefore they have been aggregated into one reportable segment which operates exclusively in Canada.

2. UK division - provides laundry and linen services primarily to the hospitality sector, with other sectors including healthcare, manufacturing and pharmaceutical, through six sites which are located in Cupar, Perth, Newcastle, Livingston and Coatbridge.

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

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

a) Segment revenue

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

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same manner as in the consolidated statements of earnings & comprehensive income.

In Edmonton 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, 2031. For the nine months ended September 30, 2022, from these three major customers the Corporation has recorded revenue of $97,067 (2021 – $87,350), representing 47.1% (2021 – 54.0%) of total revenue.

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and nine months ended September 30, 2022 and 2021)

	Nine Months Ended September 30, 2022			Nine Months Ended September 30, 2021		
Healthcare	$	124,820	60.6%	$	120,103	74.3%
Hospitality		32,764	15.9%		14,924	9.2%
Canadian division	$	157,584	76.5%	$	135,027	83.5%
Healthcare	$	4,623	2.3%	$	4,894	3.0%
Hospitality		43,745	21.2%		21,861	13.5%
UK division	$	48,368	23.5%	$	26,755	16.5%
Total segment revenue	$	205,952	100.0%	$	161,782	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, 2022		**Canadian division**		**UK division**		**Total**
Net earnings (loss)	$	5,220	$	(1,594)	$	3,626
EBITDA	$	24,620	$	3,146	$	27,766

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**

The Canadian division net earnings includes non-cash employee share based compensation expense of $1,378 (2021 – $1,431).

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and nine months ended September 30, 2022 and 2021)

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, 2022		Canadian division		UK division		Total
Total assets	$	249,374	$	72,153	**$**	**321,527**
Other:						
Cash and cash equivalents		(19)		(1,689)		**(1,708)**
Total segment assets	**$**	**249,355**	**$**	**70,464**	**$**	**319,819**

At December 31, 2021		Canadian division		UK division		Total
Total assets	$	254,225	$	78,294	**$**	**332,519**
Other:						
Cash and cash equivalents		-		(1,110)		**(1,110)**
Total segment assets	**$**	**254,225**	**$**	**77,184**	**$**	**331,409**

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and nine months ended September 30, 2022 and 2021)

d) Segment liabilities

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

At September 30, 2022		Canadian division		UK division		Total
Total liabilities	$	124,743	$	21,774	$	146,517
Other:						
Long-term debt (note 5)		(39,141)		-		(39,141)
Total segment liabilities	**$**	**85,602**	**$**	**21,774**	**$**	**107,376**

At December 31, 2021		Canadian division		UK division		Total
Total liabilities	$	123,109	$	23,009	**$**	**146,118**
Other:						
Long-term debt (note 5)		(37,973)		-		**(37,973)**
Total segment liabilities	**$**	**85,136**	**$**	**23,009**	**$**	**108,145**

12 Government Grants

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, 2022, $0 (2021 - $3,739) of government grants were offset to operating expenses which includes, wages and benefits of $0 (2021 - $2,628), delivery of $0 (2021 - $863), and corporate costs of $0 (2021 - $248). $0 of government grants have been collected in the current year.

13 Subsequent events

a) Dividends

On October 14, 2022, the Board declared an eligible dividend of $0.1000 per common share of the Corporation payable on November 15, 2022 to shareholders of record on October 31, 2022.

On November 9, 2022, the Board declared an eligible dividend of $0.1000 per common share of the Corporation payable on December 15, 2022 to shareholders of record on November 30, 2022.