K·BRO

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Q2, 2023

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Interim Condensed Consolidated Statements of Financial Position

(unaudited, thousands of Canadian dollars)

	June 30, 2023	December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,623	$ 2,636
Accounts receivable	49,217	37,761
Income tax receivable	606	1,917
Prepaid expenses and deposits	6,192	6,386
Linen in service	35,556	31,383
	93,194	80,083
Assets classified as held for sale (note 4)	718	696
	93,912	80,779
Property, plant and equipment (note 4)	204,156	203,185
Intangible assets (note 12)	6,896	4,428
Goodwill (note 12)	41,568	37,368
	$ 346,532	$ 325,760
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 34,739	$ 32,505
Provisions	229	279
Share repurchase liability (note 13)	1,847	-
Lease liabilities	10,794	9,615
Dividends payable to shareholders	1,078	1,075
	48,687	43,474
Long-term debt (note 5)	63,598	45,166
Lease liabilities	41,590	44,042
Provisions	2,396	2,382
Deferred income taxes	14,594	14,154
	$ 170,865	$ 149,218
SHAREHOLDERS' EQUITY		
Share capital	208,014	208,463
Contributed surplus	213	2,323
Deficit	(32,009)	(32,232)
Accumulated other comprehensive loss	(551)	(2,012)
	$ 175,667	$ 176,542
Contingencies and commitments (note 6)		
	$ 346,532	$ 325,760

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 June 30,		Six Months Ended June 30,	
	2023	2022	**2023**	2022
Revenue	**$ 80,745**	$ 70,890	**$ 151,528**	$ 132,324
Expenses				
Wages and benefits	**30,972**	28,451	**58,662**	53,108
Delivery	**9,436**	9,526	**18,528**	17,771
Linen	**8,275**	7,600	**15,701**	14,993
Utilities	**6,285**	6,048	**12,298**	11,672
Corporate	**3,700**	2,987	**6,727**	5,550
Materials and supplies	**3,165**	2,935	**6,243**	5,584
Repairs and maintenance	**3,050**	2,465	**5,902**	4,713
Occupancy costs	**1,361**	1,218	**2,633**	2,211
Remeasurement expense	**-**	(23)	**-**	(23)
	66,244	61,207	**126,694**	115,579
EBITDA	**14,501**	9,683	**24,834**	16,745
Other expenses				
Depreciation of property, plant and equipment (note 4)	**6,656**	5,936	**12,907**	11,792
Amortization of intangible assets	**147**	634	**217**	1,305
Finance expense	**1,584**	1,001	**3,057**	2,001
	8,387	7,571	**16,181**	15,098
Earnings before income taxes	**6,114**	2,112	**8,653**	1,647
Current income tax expense	**657**	309	**1,311**	386
Deferred income tax expense	**766**	187	**651**	91
Income tax expense	**1,423**	496	**1,962**	477
Net earnings	**$ 4,691**	$ 1,616	**$ 6,691**	$ 1,170
Other comprehensive income (loss)				
Items that may be subsequently reclassified to earnings:				
Foreign currency translation differences on foreign operations	**141**	(2,433)	**1,461**	(4,672)
Total comprehensive income (loss)	**$ 4,832**	$ (817)	**$ 8,152**	$ (3,502)
Net earnings per share:				
Basic	**$ 0.44**	$ 0.15	**$ 0.62**	$ 0.11
Diluted	**$ 0.44**	$ 0.15	**$ 0.62**	$ 0.11
Weighted average number of shares outstanding:				
Basic	**10,706,174**	10,649,741	**10,706,429**	10,645,467
Diluted	**10,760,418**	10,716,073	**10,750,242**	10,703,335

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, 2022	$ 208,463	$ 2,323	$ (32,232)	$ (2,012)	$ 176,542
Total comprehensive income	-	-	6,691	1,461	8,152
Dividends declared (note 7)	-	-	(6,468)	-	(6,468)
Employee share based compensation expense (note 11)	-	948	-	-	948
Repurchase of shares (note 13)	(1,028)	(632)	-	-	(1,660)
Share repurchase liability (note 13)	-	(1,847)	-	-	(1,847)
Shares vested during the period	579	(579)	-	-	-
As at June 30, 2023	$ 208,014	$ 213	$ (32,009)	$ (551)	$ 175,667

	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 loss	-	-	1,170	(4,672)	(3,502)
Dividends declared (note 7)	-	-	(6,441)	-	(6,441)
Employee share based compensation expense (note 11)	-	940	-	-	940
Shares vested during the period	627	(627)	-	-	-
As at June 30, 2022	$ 207,287	$ 2,651	$ (28,504)	$ (4,036)	$ 177,398

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,	
	2023	2022	**2023**	2022
OPERATING ACTIVITIES				
Net earnings	**$ 4,691**	$ 1,616	**$ 6,691**	$ 1,170
Depreciation of property, plant and equipment (note 4)	**6,656**	5,936	**12,907**	11,792
Amortization of intangible assets	**147**	634	**217**	1,305
Accretion expense	**34**	(11)	**25**	107
Employee share based compensation expense	**443**	428	**948**	940
Remeasurement expense	**-**	(23)	**-**	(23)
Deferred income tax expense	**766**	187	**651**	91
	12,737	8,767	**21,439**	15,382
Change in non-cash working capital items (note 8)	**(11,615)**	(4,929)	**(11,009)**	(1,831)
Cash provided by operating activities	**1,122**	3,838	**10,430**	13,551
FINANCING ACTIVITIES				
Net proceeds from revolving debt (note 5)	**9,885**	8,609	**18,432**	7,251
Repurchase of shares (note 13)	**(1,660)**	-	**(1,660)**	-
Principal elements of lease payments	**(2,340)**	(1,821)	**(4,484)**	(3,655)
Dividends paid to shareholders	**(3,237)**	(3,222)	**(6,468)**	(6,438)
Cash provided by (used in) financing activities	**2,648**	3,566	**5,820**	(2,842)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(2,987)**	(3,889)	**(5,762)**	(7,129)
Proceeds from disposal of property, plant and equipment	**1**	-	**1**	-
Purchase of intangible assets	**(90)**	(53)	**(111)**	(55)
Acquisition of business (note 12)	**117**	-	**(11,248)**	-
Cash used in investing activities	**(2,959)**	(3,942)	**(17,120)**	(7,184)
Change in cash and cash equivalents during the period	**811**	3,462	**(870)**	3,525
Effect of exchange rate changes on cash and cash equivalents	**(145)**	(78)	**(143)**	(123)
Cash and cash equivalents, beginning of period	**957**	1,128	**2,636**	1,110
Cash and cash equivalents, end of period	**$ 1,623**	$ 4,512	**$ 1,623**	$ 4,512
Supplementary cash flow information				
Interest paid	**$ 1,495**	$ 908	**$ 3,029**	$ 1,757
Income taxes paid	**$ -**	$ 1,235	**$ -**	$ 3,023

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

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 ten 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 8, 2023.

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, 2022 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.

Economic Conditions

Since 2020, due to changing government restrictions to mitigate the ongoing COVID-19 pandemic, supply chain disruption, geo political events impacting key inputs such as natural gas, electricity and diesel and inflationary impacts to labour and materials the Corporation has faced varying degrees of financial impact within Canada and the UK. 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 and until such time as labour markets stabilize the Corporation will continue to be impacted financially by these conditions.

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.

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, 2023. 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 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 IAS 12, Accounting Policies, relates to a temporary exception to the requirements regarding deferred tax assets and liabilities related to pillar two income taxes.

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 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.

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and six months ended June 30, 2023 and 2022)

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, 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]	-	59	10,357	106	8,477	292	128	119	19,538
Change in asset retirement obligation	-	-	-	-	-	-	(434)	-	(434)
Disposals	-	-	(13)	-	(3,473)	-	-	-	(3,486)
Transfers	-	-	7	(7)	-	-	-	-	-
Depreciation charge	-	(5,977)	(10,876)	(93)	(3,076)	(267)	(3,477)	-	(23,766)
Assets classified as held for sale[5]	(652)	(44)	-	-	-	-	-	-	(696)
Effect of movement in exchange rates	(75)	(530)	(652)	(8)	(214)	-	(16)	(2)	(1,497)
Closing net book amount	$ 3,312	$ 51,718	$ 106,885	$ 220	$ 9,618	$ 323	$ 29,246	$ 1,863	$ 203,185
At December 31, 2022									
Cost	$ 3,312	$ 77,804	$ 208,434	$ 1,303	$ 22,322	$ 3,688	$ 59,873	$ 1,863	$ 378,599
Accumulated impairment losses	-	(207)	(2,113)	-	(5)	(14)	-	-	(2,339)
Accumulated depreciation	-	(25,879)	(99,436)	(1,083)	(12,699)	(3,351)	(30,627)	-	(173,075)
Net book amount	$ 3,312	$ 51,718	$ 106,885	$ 220	$ 9,618	$ 323	$ 29,246	$ 1,863	$ 203,185
Period ended, June 30, 2023									
Opening net book amount	$ 3,312	$ 51,718	$ 106,885	$ 220	$ 9,618	$ 323	$ 29,246	$ 1,863	$ 203,185
Additions [2][3][4]	-	1,508	4,920	49	1,460	229	9	87	8,262
Change in asset retirement obligation	-	-	-	-	-	-	(25)	-	(25)
Acquisition of business (note 12)	-	-	4,195	24	-	42	486	-	4,747
Disposals	-	-	-	-	(1)	-	-	-	(1)
Depreciation charge	-	(3,186)	(5,746)	(54)	(2,052)	(192)	(1,677)	-	(12,907)
Effect of movement in exchange rates	25	270	399	4	184	-	13	-	895
Closing net book amount	$ 3,337	$ 50,310	$ 110,653	$ 243	$ 9,209	$ 402	$ 28,052	$ 1,950	$ 204,156
At June 30, 2023									
Cost	$ 3,337	$ 79,730	$ 218,280	$ 1,388	$ 24,157	$ 3,959	$ 60,355	$ 1,950	$ 393,156
Accumulated impairment losses	-	(207)	(2,113)	-	(5)	(14)	-	-	(2,339)
Accumulated depreciation	-	(29,213)	(105,514)	(1,145)	(14,943)	(3,543)	(32,303)	-	(186,661)
Net book amount	$ 3,337	$ 50,310	$ 110,653	$ 243	$ 9,209	$ 402	$ 28,052	$ 1,950	$ 204,156

(1) Included in laundry equipment are assets under development in the amount of $641 (2022 - $181). 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 $366 (2022 - $697).

(3) Additions include amounts from the Canadian Division of $6,380 (2022 - $10,598) and from the UK Division of $1,882 (2022 - $8,940).

(4) Includes ROUA additions from the Canadian Division of $2,167 (2022 - $1,691), comprised of buildings of $964 (2022 - $0) and vehicles of $1,203 (2022 - $1,691). From the UK Division, ROUA additions were $674 (2022 - $6,800), comprised of buildings of $544 (2022 - $0) and vehicles of $130 (2022 - $6,800). This has resulted in corresponding increases to the lease liabilities in the amount of $2,167 (2022 - $1,691) for the Canadian Division and $674 (2022 - $6,800) for the UK Division.

(5) Assets classified as held for sale are comprised of land and a building in Cupar, Scotland. The asset is currently marketed for sale, and it is anticipated to be sold during fiscal 2023.

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2023 and 2022)

5 Long-term debt

		Prime Rate Loan[1]
At January 1, 2022	$	37,973
Net proceeds from debt		7,193
Closing balance at December 31, 2022	$	45,166
At January 1, 2023	**$**	**45,166**
Net proceeds from debt		**18,432**
Closing balance at June 30, 2023	**$**	**63,598**

(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, 2026. 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, 2023 the combined interest rate was 7.45% (December 31, 2022 – 6.95%).

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 June 30, 2023 and December 31, 2022.

The Corporation has a revolving credit facility of up to $100,000 plus a $25,000 accordion of which $65,466 is utilized (including letters of credit totaling $1,868) as at June 30, 2023. 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 six months ended June 30, 2023 and 2022)

6 Contingencies and commitments

a) Contingencies

The Corporation has standby letters of credit issued as part of normal business operations in the amount of $1,868 (December 31, 2022 – $1,836) 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.

b) Commitments and contractual obligations

(i) Utility commitments

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

Utility commitments		
Remainder of 2023	$	6,420
2024		11,025
2025		2,358
2026		1,495
2027		-
Subsequent		-
	$	21,298

(ii) Linen purchase commitments

At June 30, 2023, the Corporation was committed to linen expenditure obligations in the amount of $5,745 (December 31, 2022 – $10,161) to be incurred within the next year.

(iii) Property, plant and equipment commitments

At June 30, 2023, the Corporation was committed to capital expenditure obligations in the amount of $2,792 (December 31, 2022 – $2,341) 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, 2023, the Corporation held trust funds on deposit in the amount of $891 (December 31, 2022 – $964).

7 Dividends to shareholders

During the three months ended June 30, 2023, the Corporation declared total dividends to shareholders of $3,237 or $0.300 per share (June 30, 2022 - $3,227 or $0.300 per share). During the six months ended

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and six months ended June 30, 2023 and 2022)

June 30, 2023, the Corporation declared total dividends to shareholders of $6,468 or $0.600 per share (June 30, 2022 - $6,441 or $0.600 per share).

8 Net change in non-cash working capital items

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	**2023**	2022
Accounts receivable	**$ (10,868)**	$ (6,061)	**$ (10,009)**	$ (1,770)
Linen in service	**(1,660)**	(1,429)	**(2,883)**	(2,752)
Prepaid expenses and deposits	**482**	1,208	**440**	(370)
Accounts payable and other liabilities (1)	**(226)**	2,279	**132**	5,693
Income taxes payable / receivable	**657**	(926)	**1,311**	(2,632)
	$ (11,615)	$ (4,929)	**$ (11,009)**	$ (1,831)

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 2023 of ($539) and 2022 of ($176).

9 Financial instruments

The Corporation's financial instruments at June 30, 2023 and December 31, 2022 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, 2022, 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, 2023 was reviewed by management and adjusted for accordingly based off adjusted historical loss rates, in addition to considering the impact of rising interest rates and the incremental risk to the hospitality industry. Given the current economic environment, 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.

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, 2023, the Corporation incurred such fees totaling $18 (2022– $18). For the six months ended June 30, 2023, the Corporation incurred such fees totaling $36 (2022 - $36).

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 ten 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 five 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 a major customer is contractually committed to March 1, 2027, and in Saskatchewan the major customer is contractually committed to June 1, 2031. For the six months ended June 30, 2023, from these three major customers the Corporation has recorded revenue of $66,528 (2022 – $64,767), representing 43.9% (2022 – 48.9%) of total revenue.

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2023 and 2022)

	Six Months Ended June 30, 2023			Six Months Ended June 30, 2022		
Healthcare	$	85,924	56.6%	$	83,623	63.1%
Hospitality		28,736	19.0%		18,894	14.3%
Canadian division	$	114,660	75.6%	$	102,517	77.4%
Healthcare	$	3,344	2.3%	$	3,137	2.4%
Hospitality		33,524	22.1%	$	26,670	20.2%
UK division	$	36,868	24.4%	$	29,807	22.6%
Total segment revenue	$	151,528	100.0%	$	132,324	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.

Six Months Ended June 30, 2023		**Canadian division**		**UK division**		**Total**
Net earnings	$	5,074	$	1,617	$	6,691
EBITDA	$	20,063	$	4,771	$	24,834

Six Months Ended June 30, 2022		**Canadian division**		**UK division**		**Total**
Net earnings (loss)	$	3,098	$	(1,928)	$	1,170
EBITDA	$	15,590	$	1,155	$	16,745

The Canadian division net earnings includes non-cash employee share based compensation expense of $948 (2022 - $940).

(unaudited, thousands of Canadian dollars except share and per share amounts, three and six months ended June 30, 2023 and 2022)

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 June 30, 2023	Canadian division	UK division	Total
Total assets	$ 263,639	$ 82,893	**$ 346,532**
Other:			
Cash and cash equivalents	-	(1,623)	**(1,623)**
Total segment assets	**$ 263,639**	**$ 81,270**	**$ 344,909**

At December 31, 2022	Canadian division	UK division	Total
Total assets	$ 249,604	$ 76,156	**$ 325,760**
Other:			
Cash and cash equivalents	(27)	(2,609)	**(2,636)**
Total segment assets	**$ 249,577**	**$ 73,547**	**$ 323,124**

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and six months ended June 30, 2023 and 2022)

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 June 30, 2023		Canadian division		UK division		Total
Total liabilities	$	145,766	$	25,099	**$**	**170,865**
Other:						
Long-term debt (note 5)		(63,598)		-		**(63,598)**
Total segment liabilities	**$**	**82,168**	**$**	**25,099**	**$**	**107,267**

At December 31, 2022		Canadian division		UK division		Total
Total liabilities	$	127,038	$	22,180	**$**	**149,218**
Other:						
Long-term debt (note 5)		(45,166)		-		**(45,166)**
Total segment liabilities	**$**	**81,872**	**$**	**22,180**	**$**	**104,052**

12 Business acquisition

On March 1, 2023 the Corporation completed the acquisition of 100% of the share capital of Buanderie Para-Net ("Paranet") operating as Paranet (the "Acquisition"), a private laundry and linen services company operating in Quebec City, Quebec. The Acquisition was completed through a share purchase agreement consisting of existing working capital, fixed assets, contracts and an employee base. The contracts acquired are in the Quebec healthcare and hospitality sector, which complements the existing business of the Corporation. Based on the Corporation's evaluation of the Acquisition and the criteria in the identification of a business combination established in IFRS 3, the Acquisition will be accounted for using the acquisition method, whereby the purchase consideration will be allocated to the fair values of the net assets acquired.

At the time the financial statements were authorized for issue, and due to the timing of the Acquisition, the Corporation has not yet completed the accounting for the Acquisition of Paranet. This includes the accounting for the amounts attributable to property, plant & equipment, intangible assets and the associated goodwill. No measurement adjustments were made in the current period.

The Corporation financed the Acquisition and transaction costs from existing loan facilities.

(unaudited, thousands of Canadian dollars except share and per share amounts,
three and six months ended June 30, 2023 and 2022)

The preliminary purchase price allocated to the net assets acquired, based on their estimated fair values, is as follows:

Cash consideration	$	11,248
Contingent consideration	$	945
Total purchase price	$	12,193

The assets and liabilities recognized as a result of the Acquisition are as follows:

Accounts receivable		1,132
Prepaid expenses and deposits		137
Linen in service		970
Accounts payable and accrued liabilities		(1,119)
Lease liabilities		(1,176)
Deferred income taxes		204
Property, plant and equipment[(1)]		5,923
Intangible assets		2,450
Net identifiable assets acquired		8,521
Goodwill		3,672
Net assets acquired	$	12,193

(1) Includes ROUA from the Canadian Division of $1,176 comprised of buildings of $964 and vehicles of $212

The provisional intangible assets acquired are made up of $2,450 for the customer contracts along with related relationships and customer lists. The goodwill is attributable to the workforce, and the efficiencies and synergies created between the existing business of the Corporation and the acquired business. Goodwill will not be deductible for tax purposes.

a) Contingent consideration

The estimated fair value of payment has been classified as contingent consideration by exercising significant judgment as to whether it should be classified as such, or as renumeration to the former owner, who will be employed subsequent to the close of the transaction. The Corporation has determined by considering all relevant factors included in the agreements as it pertains to employment terms, valuation of the business, and other relevant terms that the additional consideration is most appropriately reflected as contingent consideration.

In the event that a certain EBITDA target is achieved by Paranet for the twelve month period ended August 31, 2023, additional undiscounted consideration of up to $1,890 will be payable in cash during the fourth quarter of 2023. The potential undiscounted amount payable within the agreement will only be paid should the EBITDA target be achieved. Should the EBITDA target not be achieved no payment will be made.

The fair value of the contingent consideration of $945 was estimated by considering the probability-adjusted future expected cash flows in regards to Paranet achieving the target that would result in consideration being paid. The impact of discounting those future cash flows was not considered because the impact would be nominal.

Since the estimated future cash flows and probability of achieving the EBITDA target are an unobservable input, the fair value of the contingent consideration is classified as a level 3 fair value measurement.

b) Acquisition related costs

For the period ended June 30, 2023, $277 in professional fees associated with the Acquisition has been included in Corporate expenses.

c) Revenue and profit information

The acquired business contributed revenues of $2,853 to the Corporation for the period from March 1, 2023 to June 30, 2023. If the Acquisition had occurred on January 1, 2023, consolidated pro-forma revenue for the period ended June 30, 2023 would have been $152,853.

The acquired business contributed net income of $4 to the Corporation for the period from March 1, 2023 to June 30, 2023. If the Acquisition had occurred on January 1, 2023, consolidated pro-forma net income for the period ended June 30, 2023 would have been $6,667.

These amounts have been calculated using Paranet's results and adjusting them for differences in the accounting policies between the Corporation and Paranet as it pertains to property, plant and equipment. The Corporation follows the requirements of IFRS 16 whereas Paranet previously reported under ASPE, the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from January 1, 2023, together with the consequential tax effects.

13 Share capital

a) Normal Course Issuer Bid

On May 15, 2023, the Corporation announced its intention to proceed with a normal course issuer bid (NCIB) to purchase up to 881,481 of its common shares ("Shares") through the TSX and / or alternative Canadian trading systems, representing approximately 10% of the public float of 8,814,816 shares as at May 9, 2023, during the twelve-month period commencing May 18, 2023 and ending May 17, 2024.

During the quarter ended June 30, 2023, the Corporation repurchased and cancelled 52,756 common shares (2022 – nil) for $1,660 under the NCIB, net of transaction costs of $1 which were recorded in share capital. The average share price was $31.47, with prices ranging from $30.80 to $32.00.

The Corporation recorded a financial liability related to the NCIB due to the automatic share repurchase plan for purchases that could be made from July 1 to August 10, 2023. During the blackout period, no changes can be made as it pertains to the automated share repurchase plan.

14 Subsequent events

a) Dividends

On July 14, 2023, the Board declared an eligible dividend of $0.1000 per common share of the Corporation payable on August 15, 2023 to shareholders of record on July 31, 2023.

On August 8, 2023, the Board declared an eligible dividend of $0.1000 per common share of the Corporation payable on September 15, 2023 to shareholders of record on August 31, 2023.