



Unaudited Interim Condensed Consolidated  
Financial Statements of

**ANDLAUER HEALTHCARE  
GROUP INC.**

For the three months ended March 31, 2020 and 2019

# Andlauer Healthcare Group Inc.

## Consolidated Balance Sheets

As at March 31, 2020 and December 31, 2019

(In thousands of Canadian dollars, except shares, share price and earnings per share)

<b>Assets</b>	<b>Note</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>
<b>Current assets</b>			
Cash and cash equivalents		\$ 16,797	\$ 18,712
Accounts receivable		58,518	51,060
Inventories		1,121	1,071
Prepaid expenses and other		3,798	2,307
Due from related parties	13	207	239
Due from employee trust	2	13,875	13,875
		<u>94,316</u>	<u>87,264</u>
<b>Non-current assets</b>			
Long-term deposits		969	938
Property, plant and equipment		100,030	103,326
Goodwill and intangible assets		21,308	21,421
Deferred income taxes	10	516	46
		<u>123,823</u>	<u>136,731</u>
<b>Total Assets</b>		<b><u>\$ 217,139</u></b>	<b><u>\$ 212,995</u></b>
<b>Liabilities and Equity</b>			
<b>Current liabilities</b>			
Revolving credit facility	4	\$ -	\$ 3,929
Accounts payable and accrued liabilities		29,247	24,942
Current portion of lease liabilities	11	19,148	19,129
Income taxes payable		8,584	8,695
		<u>56,979</u>	<u>56,695</u>
<b>Long-term liabilities</b>			
Lease liabilities	11	66,882	69,584
Deferred income taxes	10	306	321
Due to related parties	13	160	335
Term facility	4	24,583	24,555
		<u>92,931</u>	<u>104,835</u>
<b>Total Liabilities</b>		<b><u>148,910</u></b>	<b><u>151,490</u></b>
<b>Equity</b>			
Common share capital	6	549,679	549,679
Contributed surplus	8	2,225	1,394
Merger reserve	2	(488,916)	(488,916)
Retained earnings (deficit)		5,241	(652)
		<u>68,229</u>	<u>61,505</u>
Commitments and contingencies	12		
Subsequent event	15		
<b>Total Liabilities and Equity</b>		<b><u>\$ 217,139</u></b>	<b><u>\$ 212,995</u></b>

See accompanying notes to the unaudited interim condensed consolidated financial statements.

On behalf of the Board:

“Peter Jelley”  
Director

“Thomas G. Wellner”  
Director

# Andlauer Healthcare Group Inc.

## Consolidated Statements of Income and Comprehensive Income

For the three months ended March 31, 2020 and 2019

(In thousands of Canadian dollars, except shares, share price and earnings per share)

	Note	March 31, 2020	March 31, 2019
<b>Revenue</b>	9	\$ 81,650	\$ 71,396
<b>Operating Expenses</b>			
Cost of transportation and services		33,540	29,691
Direct operating expenses		21,597	19,304
Selling, general and administrative expenses		7,716	5,192
Depreciation and amortization		6,393	6,287
		<u>69,246</u>	<u>60,474</u>
<b>Operating Income</b>		<b>12,404</b>	<b>10,922</b>
Other income (expense)		2	(1)
Interest income		152	258
Interest expense		(1,207)	(862)
		<u>11,351</u>	<u>10,317</u>
<b>Income before income taxes</b>		<b>11,351</b>	<b>10,317</b>
Current income tax expense	10	3,654	2,892
Deferred income tax recovery	10	(485)	(114)
		<u>3,169</u>	<u>2,778</u>
<b>Net income and comprehensive income</b>		<b>8,182</b>	<b>7,539</b>
<b>Net income attributable to:</b>			
Shareholders of the Company		8,182	7,281
Non-controlling interests		-	258
		<u>\$ 8,182</u>	<u>\$ 7,539</u>
<b>Net earnings per share attributable to the Common Shareholders of the Company:</b>			
Basic earnings per share	7	\$ 0.22	\$ -
Diluted earnings per share	7	\$ 0.22	\$ -

See accompanying notes to the unaudited interim condensed consolidated financial statements.

**Andlauer Healthcare Group Inc.**  
**Consolidated Statements of Changes in Equity**  
**For the three months ended March 31, 2020 and 2019**

(In thousands of Canadian dollars, except shares, share price and earnings per share)

	Attributable to Common Shareholders of the Company					Total net parent investment (note 2)	Non- controlling interests	Total equity
	Number of shares (thousands)	Share capital	Merger reserve (note 2)	Contributed surplus	Retained earnings (deficit)			
Balance at December 31, 2019	37,600	\$ 549,679	\$ (488,916)	\$ 1,394	\$ (652)	\$ -	\$ -	\$ 61,505
Net income and comprehensive income for the period	-	-	-	-	8,182	-	-	8,182
Share-based compensation (note 8)	-	-	-	831	-	-	-	831
Dividends (note 6)	-	-	-	-	(2,289)	-	-	(2,289)
<b>Balance at March 31, 2020</b>	<b>37,600</b>	<b>\$ 549,679</b>	<b>\$ (488,916)</b>	<b>\$ 2,225</b>	<b>\$ 5,241</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 68,229</b>
Balance at December 31, 2018	-	\$ -	\$ -	\$ -	\$ -	\$ 163,811	\$ 5,917	\$ 169,728
Net income and comprehensive income for the period	-	-	-	-	-	7,281	258	7,539
<b>Balance at March 31, 2019</b>	<b>-</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 171,092</b>	<b>\$ 6,175</b>	<b>\$ 177,267</b>

See accompanying notes to the unaudited interim condensed consolidated financial statements.

**Andlauer Healthcare Group Inc.**  
**Consolidated Statements of Cash Flow**  
**For the three months ended March 31, 2020 and 2019**

(In thousands of Canadian dollars, except shares, share price and earnings per share)

	Note	March 31, 2020	March 31, 2019
<b>Operating activities</b>			
Net income for the period		\$ 8,182	\$ 7,539
Changes not involving cash:			
Depreciation and amortization		6,393	6,287
Adjustment to capitalized financing costs	4	28	-
Share-based compensation	8	831	-
Deferred income tax recovery	10	(485)	(114)
Derecognition of right of use assets and liabilities	11	(7)	-
		<u>14,942</u>	<u>13,712</u>
Changes in non-cash operating working capital:			
Accounts receivable		(7,458)	856
Inventories		(50)	(4)
Accounts payable and accrued liabilities		2,016	(3,001)
Income taxes payable		(111)	652
Net change in other operating working capital balances		(1,522)	(1,881)
<b>Cash flows from operating activities</b>		<u><b>7,817</b></u>	<u><b>10,334</b></u>
<b>Financing activities</b>			
Principal repayments on lease liabilities	11	(4,780)	(4,623)
Net change in related party balances		(143)	(1,563)
Repayment of revolving credit facility	4	(3,929)	-
<b>Cash flows used in financing activities</b>		<u><b>(9,125)</b></u>	<u><b>(6,186)</b></u>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(870)	(405)
Purchase of intangible assets		(10)	(95)
<b>Cash flows used in investing activities</b>		<u><b>(880)</b></u>	<u><b>(500)</b></u>
<b>Net (decrease) increase in cash and cash equivalents</b>		(1,915)	3,648
<b>Cash and cash equivalents, beginning of period</b>		<u>18,712</u>	<u>53,657</u>
<b>Cash and cash equivalents, end of period</b>		<u><b>\$ 16,797</b></u>	<u><b>\$ 57,305</b></u>

	March 31, 2020	March 31, 2019
<b>Operating working capital transactions not affecting cash</b>		
Dividends included in accounts payable and accrued liabilities	\$ 2,289	\$ -

See accompanying notes to the unaudited interim condensed consolidated financial statements.

# Andlauer Healthcare Group Inc.

## Notes to Consolidated Financial Statements for the three months ended March 31, 2020 and 2019

(In thousands of Canadian dollars, except shares, share price and earnings per share)

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### 1. Reporting entity

Andlauer Healthcare Group Inc. (“AHG”) was incorporated under the Ontario Business Corporations Act on November 12, 2019 with its head office located in Woodbridge, Ontario. AHG’s subordinate voting shares are listed on the Toronto Stock Exchange under the stock symbol “AND”. AHG specializes in third party logistics and transportation solutions for the healthcare sector in Canada.

On December 4, 2019, AHG entered into an underwriting agreement and filed a long form prospectus for the purpose of completing an initial public offering, which closed on December 11, 2019 (the “Closing”). AHG raised gross proceeds of \$150,000 through the issuance of 10 million subordinate voting shares at a price of \$15.00 per subordinate voting share. On December 16, 2019, a further 1.5 million subordinate voting shares were issued at a price of \$15.00 per subordinate voting share resulting in \$22,500 of additional gross proceeds pursuant to the exercise of an over-allotment option in the underwriting agreement.

As part of the Closing, in addition to the shares issued to the public, Andlauer Management Group Inc. (“AMG”) acquired 25.1 million multiple voting shares and 1 million subordinate voting shares of AHG. AMG concurrently transferred 925,000 subordinate voting shares to an Employee Benefit Plan Trust. AMG holds all of the issued and outstanding multiple voting shares and 75,000 subordinate voting shares of AHG, representing approximately 67% of the issued and outstanding shares and 89% of the voting power attached to all of the shares. AMG is owned and controlled by Michael Andlauer, Chief Executive Officer and a director of AHG.

### 2. Basis of presentation

#### a) Statement of compliance

These unaudited interim condensed consolidated financial statements (“consolidated financial statements”) have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”). Under International Financial Reporting Standards (“IFRS”), additional disclosures are required in the annual financial statements and therefore, these consolidated financial statements and accompanying notes should be read in conjunction with the notes to the Company’s audited consolidated financial statements for the years ended December 31, 2019 and 2018.

These consolidated financial statements have been prepared using consistent accounting policies and methods used in the preparation of the Company’s annual audited consolidated financial statements.

These consolidated financial statements were authorized for issue by the Board of Directors effective May 11, 2020.

#### b) Basis of measurement

These financial statements comprise the consolidated financial results of AHG as at and for the three months ended March 31, 2020 and the combined financial results of Associated Logistics Solutions Inc., Credo Canada Systems Inc., 2186940 Ontario Inc. and their respective subsidiaries (collectively, the “AHG Entities”) as at and for the three month period ended March 31, 2019 (collectively the “Company”).

#### Common control transaction

In connection with a series of transactions that occurred prior to, and on, the date of Closing, AHG acquired a 100% ownership interest in the AHG Entities.

# Andlauer Healthcare Group Inc.

## Notes to Consolidated Financial Statements for the three months ended March 31, 2020 and 2019

(In thousands of Canadian dollars, except shares, share price and earnings per share)

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### 2. Basis of presentation (continued)

#### b) Basis of measurement (continued)

##### Common control transaction (continued)

AHG's acquisition of the AHG Entities was a business combination involving entities under common control in which all of the combining entities were ultimately controlled by AMG, both before and after the reorganization transactions were completed. Business combinations involving entities under common control are outside the scope of IFRS 3 Business Combinations. AHG accounted for this common control transaction using book value accounting, based on the book values recognized in the financial statements of the underlying entities. This election results in the financial statements being restated for periods prior to the date of obtaining common control, to reflect the combination as if it had occurred from the beginning of the period that the entities were under common control, regardless of the actual date the common control transaction closed.

#### (i) Total net parent investment

The comparative financial statements as at and for the three months ended March 31, 2019 have been prepared on a combined basis. Accordingly, it is not meaningful to show share capital or provide an analysis of reserves. Therefore, amounts which reflect the carrying value of investments in the combined entities are disclosed as "Total net parent investment", while carrying value of net assets attributable to shareholders other than the Company are presented as "Non-controlling interests" ("NCI"). Since the Company was not an existing legal entity during the three months ended March 31, 2019, the combined entities have no historical capital structure. Consequently, earnings per share as required by IAS 33 *Earnings per share* has not been presented for the comparative period.

#### (ii) Merger reserve

Pursuant to a share purchase agreement between AHG and its parent, and in connection with a corporate reorganization immediately prior to the initial public offering, AHG acquired a 100% ownership interest in the AHG Entities based on the value of consideration of \$577,625. Total net parent investment as at December 10, 2019 (immediately prior to the Closing) was \$88,709. A merger reserve of \$488,916 is recorded to reflect the difference in carrying value of the net assets acquired and the consideration paid since AHG and the AHG Entities were all related under the common control of AMG at the time of the acquisition.

#### (iii) Employee trust

An employee trust was established at Closing, the beneficiaries of which will be executive officers and employees of the Company. AHG made a non-interest bearing loan of \$13,875 to the employee trust which the employee trust used to acquire 925,000 subordinate voting shares from AMG. As the subordinate voting shares are allocated and/or distributed to beneficiaries of the employee trust, contributions will be made by the respective employer of any such beneficiary to the employee trust at \$15.00 per subordinate voting share and used by the employee trust to repay the non-interest bearing loan.

#### c) Judgments and estimates

Preparing the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these consolidated financial statements, significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2019.

## Andlauer Healthcare Group Inc.

### Notes to Consolidated Financial Statements for the three months ended March 31, 2020 and 2019

(In thousands of Canadian dollars, except shares, share price and earnings per share)

### 3. Segment reporting

The Company is organized into two operating segments, which it also considers to be reportable segments: Specialized Transportation and Healthcare Logistics. The operating segments are managed independently as they require different technology and capital resources. For each of the operating segments, the Company's CODM reviews internal management reports, evaluating the metrics as summarized in the tables below.

The Company evaluates performance based on the various financial measures of its two operating segments. Performance is measured based on segment income or loss before tax. This measure is included in the internal management reports that are reviewed by the Company's CEO and refers to "Income before income taxes" in the consolidated statements of income and comprehensive income. Segment income or loss before tax is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within the same industries. The following table identifies selected financial data as at March 31, 2020 and 2019 and for the three months then ended:

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
<b>As at March 31, 2020 and for the three months then ended</b>					
Revenue	\$ 57,861	\$ 30,911	\$ -	\$ (7,122)	\$ 81,650
Segment income before tax	10,492	2,933	(2,074)	-	11,351
Interest income	118	34	-	-	152
Interest expense	(529)	(402)	(276)	-	(1,207)
Depreciation and amortization	(4,000)	(2,393)	-	-	(6,393)
Segment net income	7,430	2,027	(1,275)	-	8,182
Segment total assets	132,112	93,504	593,359	(601,836)	217,139
Acquisition of ROU assets	2,104	-	-	-	2,104
Capital expenditures	89	781	-	-	870
Segment total liabilities	79,296	47,320	47,434	(25,140)	148,910
<b>As at March 31, 2019 and for the three months then ended</b>					
Revenue	\$ 49,509	\$ 27,962	\$ -	\$ (6,075)	\$ 71,396
Segment income before tax	7,923	2,394	-	-	10,317
Interest income	241	17	-	-	258
Interest expense	(435)	(427)	-	-	(862)
Depreciation and amortization	(3,905)	(2,382)	-	-	(6,287)
Segment net income	5,794	1,745	-	-	7,539
Segment total assets	192,641	93,217	-	(4,308)	281,550
Acquisition of ROU assets	4,542	16	-	-	4,558
Capital expenditures	267	138	-	-	405
Segment total liabilities	57,171	51,421	-	(4,309)	104,283



## Andlauer Healthcare Group Inc.

### Notes to Consolidated Financial Statements for the three months ended March 31, 2020 and 2019

(In thousands of Canadian dollars, except shares, share price and earnings per share)

#### 3. Segment reporting (continued)

The Company's Healthcare Logistics segment purchases transportation services from its Specialized Transportation segment. Fees for these services are based on negotiated rates, which approximate fair value, and are reflected as revenues of the Specialized Transportation segment. Rates are adjusted from time to time based on market conditions. Intersegment revenues and expenses and related intersegment payables and receivables are eliminated in the Company's consolidated results.

The Company does not have any customers that individually represent more than 10% of revenue.

#### 4. Credit facilities

	March 31, 2020	December 31, 2019
Revolving credit facility	\$ -	\$ 3,929
Term facility	25,000	25,000
	25,000	28,929
Less: financing costs	(417)	(445)
	<b>\$ 24,583</b>	<b>\$ 28,484</b>

Recorded in the consolidated balance sheets as follows:

	March 31, 2020	December 31, 2019
Revolving credit facility	\$ -	\$ 3,929
Term facility	24,583	24,555
	<b>\$ 24,583</b>	<b>\$ 28,484</b>

The movement in credit facilities from December 31, 2019 is as follows:

	Credit facilities
Balance at December 31, 2019	\$ 28,484
<b>Changes from financing cash flows</b>	
Repayment of revolving credit facility	(3,929)
	24,555
<b>Non-cash movements</b>	
Adjustment to capitalized financing costs	28
<b>Balance at March 31, 2020</b>	<b>\$ 24,583</b>

## **Andlauer Healthcare Group Inc.**

### **Notes to Consolidated Financial Statements for the three months ended March 31, 2020 and 2019**

(In thousands of Canadian dollars, except shares, share price and earnings per share)

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#### **4. Credit facilities (continued)**

On December 11, 2019 the Company entered into credit facilities with affiliates of RBC and CIBC at Closing of the initial public offering. The credit facilities comprise a revolving credit facility in the aggregate principal amount of \$75,000 and a term facility in the aggregate principal amount of \$25,000. The credit facilities are available to be drawn in Canadian dollars by way of prime rate loans, bankers' acceptances and letters of credit, and in U.S. dollars by way of base rate loans, LIBOR based loans and letters of credit, in each case, plus the applicable margin in effect from time to time. At March 31, 2020, the term facility comprises bankers' acceptances drawn at an interest rate of 3.3%.

The credit facilities are guaranteed by each of the Company's material subsidiaries and are secured by (i) a first priority lien over all personal property of the Company, subject to certain exclusions and permitted liens, (ii) charges over certain material leased real property interests, and (iii) a first ranking pledge of 100% of the securities of any subsidiary owned by the Company.

The credit facilities are subject to customary negative covenants and include financial covenants requiring the Company to maintain at all times a maximum net leverage ratio and a minimum interest coverage ratio, tested on a quarterly basis. At March 31, 2020, the Company is in compliance with all of its covenants under the credit facilities.

The credit facilities will mature and be due and payable on December 11, 2023.

Amounts recognized in the consolidated statements of income and comprehensive income in connection with interest expense for the credit facilities for the three months ended March 31, 2020 was \$275 (2019 – \$nil).

#### **5. Financial instruments and financial risk management**

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities and term facility. The Company believes that the carrying amount of each of these items is a reasonable approximation of fair value.

As the term facility bears interest at a floating rate subject to fluctuations in the bank prime rate the carrying value of the debt approximates fair value.

#### **6. Share capital**

The Company is authorized to issue an unlimited number of subordinate voting common shares, an unlimited number of multiple voting common shares, and an unlimited number of preferred shares, issuable in series. The subordinate voting shares and multiple voting shares rank *pari passu* with respect to the payment of dividends, return of capital and distribution of assets in the event of liquidation, dissolution, or wind-up. Holders of multiple voting shares are entitled to four votes per multiple voting share, and holders of subordinate voting shares are entitled to one vote per subordinate voting share on all matters upon which holders of shares are entitled to vote. All of the multiple voting shares and 75 thousand subordinate voting shares are owned by the Company's parent, AMG. At March 31, 2020, 25.1 million multiple voting shares and 12.5 million subordinate voting shares were issued and outstanding (December 31, 2019 – 25.1 million and 12.5 million respectively).

##### **Dividends to subordinate voting shareholders**

During the three months ended March 31, 2020, AHG declared a dividend of \$0.060870 per common share, payable on April 15, 2020 to common shareholders of record on March 31, 2020.

## Andlauer Healthcare Group Inc.

### Notes to Consolidated Financial Statements for the three months ended March 31, 2020 and 2019

(In thousands of Canadian dollars, except shares, share price and earnings per share)

#### 7. Earnings per share

Comparative earnings per share data is not presented for the three months ended March 31, 2019 as the Company was not incorporated until November 12, 2019.

##### Basic earnings per share

The basic earnings per share and the weighted average number of common shares outstanding have been calculated as follows:

	<b>Three months ended March 31, 2020</b>
(in thousands of dollars and number of shares)	
Net income attributable to the common shareholders of the Company	\$ 8,182
Weighted average number of common shares	37,600
<b>Earnings per share – basic</b>	<b>\$ 0.22</b>

##### Diluted earnings per share

The basic earnings per share and the weighted average number of common shares outstanding after adjustment for the effects of all dilutive common shares have been calculated as follows:

	<b>Three months ended March 31, 2020</b>
(in thousands of dollars and number of shares)	
Net income attributable to the common shareholders of the Company	\$ 8,182
Weighted average number of common shares	37,600
Dilutive effects:	
Stock options	387
Deferred share units	11
Weighted average number of diluted common shares	37,998
<b>Earnings per share – diluted</b>	<b>\$ 0.22</b>

## Andlauer Healthcare Group Inc.

### Notes to Consolidated Financial Statements for the three months ended March 31, 2020 and 2019

(In thousands of Canadian dollars, except shares, share price and earnings per share)

#### 8. Share-based payment arrangements

##### Stock option plan (equity-settled)

The Company offers a stock option plan for the benefit of certain of its employees. Each stock option entitles its holder to receive one subordinate voting common share upon exercise. The exercise price payable for each option is determined by the Board of Directors at the date of grant. The options vest in equal installments over four years and the expense is recognized following the accelerated method as each installment is fair valued separately and recorded over the respective vesting periods.

On December 11, 2019 the Board of Directors approved a grant of 1,650 thousand options. Of the options outstanding at March 31, 2020, a total of 700 thousand are held by non-executive directors; 400 thousand are held by executive officers; with the remaining 550 thousand held by key management personnel.

The fair value of the stock options granted was estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

	<b>December 11, 2019</b>
Exercise price	\$ 15.00
Average expected option life	7 years
Risk-free interest rate	1.59%
Expected stock price volatility	24.77%
Average dividend yield	1.33%
<b>Weighted average fair value per option of options granted</b>	<b>\$ 3.60</b>

In connection with the initial public offering, all non-executive directors were awarded 50 thousand options each which vested immediately. A total of 350 thousand options are exercisable at March 31, 2020 (December 31, 2019 – 350 thousand).

The table below summarizes the changes in the outstanding stock options:

(in thousands of options and in dollars)	<b>Three months ended March 31, 2020</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>
Opening balance	1,650	\$ 15.00
Granted	-	-
Exercised	-	-
Forfeited	-	-
Ending balance	1,650	15.00

  

	<b>March 31, 2020</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>
<b>Options exercisable</b>	<b>350</b>	<b>\$ 15.00</b>

## Andlauer Healthcare Group Inc.

### Notes to Consolidated Financial Statements for the three months ended March 31, 2020 and 2019

(In thousands of Canadian dollars, except shares, share price and earnings per share)

## 8. Share-based payment arrangements (continued)

### Stock option plan (continued)

The Company recognized compensation expense of \$593 for the three months ended March 31, 2020 with a corresponding increase to contributed surplus in connection with the vesting of options issued at the time of the initial public offering.

### Director deferred share units (“DSUs”) program (equity settled)

Each non-executive director receives at least 50% of his or her annual director retainer in DSUs. DSUs vest when granted, but are not redeemable for settlement until the director ceases to be a member of the Board. The number of DSUs issued is calculated for each director as the director’s quarterly retainer divided by the volume weighted average trading price on the TSX for the five trading days prior to such issuance. For the three months ended March 31, 2020, the Company recognized a compensation expense of \$238 with a corresponding increase to contributed surplus (March 31, 2019 - \$nil).

The table below summarizes the changes in the outstanding DSUs:

	March 31, 2020
(thousands of DSUs)	
Outstanding at December 31, 2019	-
Granted	11
<b>Outstanding at March 31, 2020</b>	<b>11</b>

## 9. Revenue

### A. Revenue streams

The Company generates revenue primarily from the provision of supply chain transportation and logistics services to its customers. The Company’s contracts are typically satisfied over a short period of time. Consequently, the Company applies the practical expedient and does not disclose information related to its remaining performance obligations.

### B. Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by major products and service lines. The table also includes a reconciliation of the disaggregated revenue with the Company’s reportable segments (note 3).

Major products/service lines	March 31, 2020	March 31, 2019
Logistics and distribution	\$ 23,567	\$ 21,547
Packaging	7,344	6,415
<b>Healthcare Logistics segment</b>	<b>30,911</b>	<b>27,962</b>
Ground transportation	46,329	40,814
Air freight forwarding	5,265	5,013
Dedicated and last mile delivery	6,267	3,682
Intersegment revenue	(7,122)	(6,075)
<b>Specialized Transportation segment</b>	<b>50,739</b>	<b>43,434</b>
<b>Total revenue</b>	<b>\$ 81,650</b>	<b>\$ 71,396</b>

## Andlauer Healthcare Group Inc.

### Notes to Consolidated Financial Statements for the three months ended March 31, 2020 and 2019

(In thousands of Canadian dollars, except shares, share price and earnings per share)

#### 9. Revenue (continued)

##### C. Deferred revenue

The Company bills customers for transportation services based on the pick-up date. When shipments remain in transit at the end of a period, the Company defers revenue until the shipments are delivered. The Company does not regularly bill customers in advance for logistics and distribution services. Consequently, fluctuations in deferred revenue will occur year over year and will depend on specifically negotiated payment terms resulting from customer billing requests or concerns related to credit risk. To date, the changes in deferred revenue have been largely insignificant. As at March 31, 2020 there was \$1,334 (March 31, 2019 – \$864) recorded in accounts payable and deferred liabilities. Revenue recognized in the first three months of 2020 of \$879 (March 31, 2019 – \$737) was included in the opening deferred revenue balance at the beginning of the period.

#### 10. Income taxes

##### A. Amounts recognized in profit or loss

	<u>Three months ended</u>	
	<b>March 31, 2020</b>	<b>March 31, 2019</b>
<b><i>Current income tax expense:</i></b>		
Current taxes on income for the reporting period	\$ 3,654	\$ 2,892
<b><i>Deferred income tax recovery:</i></b>		
Origination and reversal of temporary differences	(485)	(114)
<b>Income tax expense reported to the statements of income and comprehensive income</b>	<b>\$ 3,169</b>	<b>\$ 2,778</b>

Total cash outflow for actual taxes paid for the three months ended March 31, 2020 was \$3,765 (2019 – \$2,240).

##### B. Reconciliation of effective tax rate

	<u>Three months ended</u>	
	<b>March 31, 2020</b>	<b>March 31, 2019</b>
Income before income taxes	\$ 11,351	\$ 10,317
Consolidated Canadian federal and provincial income tax rate (26.5% consolidated rate)	26.50%	26.50%
Income tax expense based on statutory rate	\$ 3,008	\$ 2,734
Increase in income taxes resulting from non- deductible items or other adjustments	161	44
<b>Total income tax expense</b>	<b>\$ 3,169</b>	<b>\$ 2,778</b>

## Andlauer Healthcare Group Inc.

### Notes to Consolidated Financial Statements for the three months ended March 31, 2020 and 2019

(In thousands of Canadian dollars, except shares, share price and earnings per share)

#### 10. Income taxes (continued)

##### C. Deferred taxes

	March 31, 2020	December 31, 2019
Deferred tax assets	\$ 516	\$ 46
Deferred tax liabilities	(306)	(321)
<b>Net deferred tax asset (liability)</b>	<b>\$ 210</b>	<b>\$ (275)</b>

##### D. Movement in deferred tax balances

	Mar. 31, 2020	Move- ment	Dec. 31, 2019	Move- ment	Mar. 31, 2019	Move- ment	Dec. 31, 2018
Plant and equipment	\$ (519)	\$ -	\$ (519)	\$ (174)	\$ (345)	\$ (85)	\$ (260)
Accounts payable and accrued liabilities	268	-	268	(58)	326	-	326
Intangibles	709	-	709	366	343	147	196
Income deferred for tax purposes	(1,026)	470	(1,496)	(626)	(870)	-	(870)
Leases	778	15	763	13	750	54	696
<b>Net deferred tax asset (liability)</b>	<b>\$ 210</b>	<b>\$ 485</b>	<b>\$ (275)</b>	<b>\$ (479)</b>	<b>\$ 204</b>	<b>\$ 116</b>	<b>\$ 88</b>

##### E. Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of certain items. The Company is evaluating alternatives under which sufficient future taxable profit will be available against which the Company can use the benefits therefrom. Deductible temporary differences represent costs incurred by the Company related to the acquisition of the AHG Entities and charged directly to equity.

	<b>March 31, 2020</b>		<b>December 31, 2019</b>	
	Gross amount	Tax effect	Gross amount	Tax effect
Deductible temporary differences	\$ 14,321	\$ 3,795	\$ 14,321	\$ 3,795
Tax losses	1,021	271	1,021	271
	<b>\$ 15,342</b>	<b>\$ 4,066</b>	<b>\$ 15,342</b>	<b>\$ 4,066</b>

The tax losses of \$1,021 will expire in 2039.

##### F. Uncertainty over income tax treatments

The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

## Andlauer Healthcare Group Inc.

### Notes to Consolidated Financial Statements for the three months ended March 31, 2020 and 2019

(In thousands of Canadian dollars, except shares, share price and earnings per share)

#### 11. Leases

The Company leases buildings and equipment in the operation of its Transportation and Logistics businesses. The Company estimated its incremental borrowing rates for portfolios of leases with similar characteristics, such as similar risk profiles, same or similar types of security, and similar lease terms. Building lease terms range from 5 to 10 years. Facilities lease liabilities are calculated using the Company's incremental borrowing rate based on the specific lease commitments and term for each facility. There were no facility additions for the three months ended March 31, 2020. The average incremental borrowing rate for all facilities for the year ended December 31, 2019 is 3.75%. Equipment lease terms range from 1 to 5 years. Equipment lease liabilities are calculated using the operating segment's average incremental borrowing rate on an equipment lease portfolio basis for that period. The average incremental borrowing rate for equipment for the three months ended March 31, 2020 is 3.89% for Specialized Transportation and 3.95% for Healthcare Logistics (year ended December 31, 2019 – 4.07% for Specialized Transportation, 3.95% for Healthcare Logistics).

<b>Right-of-use assets – Facilities</b>	<b>As at and for the three months ended March 31, 2020</b>	<b>As at and for the year ended December 31, 2019</b>
Opening balance	\$ 56,285	\$ 49,634
Add: additions	-	17,708
Less: depreciation	(2,896)	(11,057)
<b>Ending balance</b>	<b>\$ 53,389</b>	<b>\$ 56,285</b>

  

<b>Right-of-use assets – Logistics and transportation equipment</b>	<b>As at and for the three months ended March 31, 2020</b>	<b>As at and for the year ended December 31, 2019</b>
Opening balance	\$ 28,018	\$ 25,400
Add: additions	2,282	11,145
Less: derecognition	(178)	-
Less: depreciation	(2,297)	(8,527)
<b>Ending balance</b>	<b>\$ 27,825</b>	<b>\$ 28,018</b>

  

<b>Net carrying amounts of right-of-use assets</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Facilities	\$ 53,389	\$ 56,285
Logistics and transportation equipment	27,825	28,018
<b>Balance</b>	<b>\$ 81,214</b>	<b>\$ 84,303</b>



## Andlauer Healthcare Group Inc.

### Notes to Consolidated Financial Statements for the three months ended March 31, 2020 and 2019

(In thousands of Canadian dollars, except shares, share price and earnings per share)

#### 11. Leases (continued)

Lease liabilities – Facilities	As at and for the three months ended March 31, 2020	As at and for the year ended December 31, 2019
Opening balance	\$ 60,948	\$ 53,927
Add: additions	-	17,583
Add: interest expense	598	2,238
Less: repayments	(2,525)	(10,562)
Less: interest payments	(598)	(2,238)
<b>Ending balance</b>	<b>\$ 58,423</b>	<b>\$ 60,948</b>

Lease liabilities – Logistics and transportation equipment	As at and for the three months ended March 31, 2020	As at and for the year ended December 31, 2019
Opening balance	\$ 27,765	\$ 25,093
Add: additions	2,282	11,146
Add: interest expense	283	1,019
Less: derecognition	(185)	-
Less: repayments	(2,255)	(8,474)
Less: interest payments	(283)	(1,019)
<b>Ending balance</b>	<b>\$ 27,607</b>	<b>\$ 27,765</b>

Cash lease principal payments	Three months ended March 31, 2020	Year ended December 31, 2019
Repayments of lease principal	\$ 4,780	\$ 19,036
Pre-payment of leases	-	125
<b>Total lease payments</b>	<b>\$ 4,780</b>	<b>\$ 19,161</b>

Lease liabilities	March 31, 2020	December 31, 2019
Facilities	\$ (58,423)	\$ (60,948)
Logistics and transportation equipment	(27,607)	(27,765)
<b>Balance</b>	<b>\$ (86,030)</b>	<b>\$ (88,713)</b>

Lease liabilities included in consolidated balance sheets	March 31, 2020	December 31, 2019
Current	\$ (19,148)	\$ (19,129)
Non-current	(66,882)	(69,584)
<b>Balance</b>	<b>\$ (86,030)</b>	<b>\$ (88,713)</b>

## Andlauer Healthcare Group Inc.

### Notes to Consolidated Financial Statements for the three months ended March 31, 2020 and 2019

(In thousands of Canadian dollars, except shares, share price and earnings per share)

#### 11. Leases (continued)

<b>Maturity analysis for lease liabilities - contractual undiscounted cash flows</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Less than one year	\$ 22,039	\$ 22,407
One to 5 years	57,576	58,882
More than 5 years	17,467	19,092
<b>Total undiscounted lease liabilities</b>	<b>\$ 97,082</b>	<b>\$ 100,381</b>

Amounts recognized in the consolidated statements of income and comprehensive income in connection with interest expense for lease liabilities for the three months ended March 31, 2020 was \$881 (March 31, 2019 – \$809). Total cash outflow for leases for the three months ended March 31, 2020 was \$5,661 (March 31, 2019 – \$5,432).

#### 12. Commitments and contingencies

- (i) The Company is, from time to time, involved in claims, legal proceedings and complaints arising in the normal course of business and provisions for such claims have been recorded where appropriate. The Company does not believe the final determination of these claims will have an adverse material effect on its consolidated financial statements.
- (ii) As at March 31, 2020, the Company had outstanding letters of guarantee in the amount of \$180 (December 31, 2019 – \$180).
- (iii) On November 28, 2019, the Company entered into a lease agreement related to a facility located at 200 Edgeware Road, Brampton, Ontario for a 7-year lease term commencing on July 1, 2020. Total lease commitments over 7 years is \$15,450. In relation to the same property, on November 28, 2019, the Company entered into a construction agreement with Orlando Corporation Inc. (Contractor) and Stevron Holdings Limited (Landlord) committing to construction work of \$2,484, of which the landlord has provided \$1,200 in cash allowances, received in January 2020. Construction is expected to be completed by June 2020.
- (iv) The Company has made commitments for Fleet equipment, with the terms to begin upon delivery of the equipment through the second quarter of 2020. Commitments range from 60 to 84 months and total \$2,987.

#### 13. Related parties

During the period, the Company entered into transactions with related parties that were incurred in the normal course of business. The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions. All outstanding balances with these related parties are to be settled in cash within two months of the reporting date. None of the balances are secured. No expense has been recognized in the current period or prior period for bad or doubtful debts in respect of amounts owed by related parties.

The Company is indirectly controlled by Michael Andlauer, the President and Chief Executive Officer and CODM. Included in these consolidated financial statements are the following transactions and balances with companies related either directly or indirectly to Mr. Andlauer.

## **Andlauer Healthcare Group Inc.**

### **Notes to Consolidated Financial Statements for the three months ended March 31, 2020 and 2019**

(In thousands of Canadian dollars, except shares, share price and earnings per share)

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#### **13. Related parties (continued)**

Andlauer Management Group Inc. (“AMG”) provides key management personnel to the Company for which it receives management fees. The Company recovers certain facilities lease costs from AMG. The Company also provides certain shared services (primarily accounting services) to AMG.

Andlauer Properties and Leasing Inc. (“APLI”) is a subsidiary of AMG and leases certain facilities and logistics and transportation equipment to the Company. The Company also leases facilities and logistics and transportation equipment from arm’s length providers. The Company provides certain shared services (primarily accounting services) to APLI.

9143-5271 (“9143”) Quebec Inc. is a subsidiary of AMG and leases a facility in Quebec to the Company. The Company provides certain shared services (primarily accounting services) to 9143.

Ready Staffing Solutions Inc., a company owned by Mr. Andlauer’s spouse, provides the Company with temporary agency employee services – providing hourly dock labour for handling operations, principally in the GTA. The Company also purchases temporary agency employee services from arm’s length providers.

1708998 Ontario Limited (Medical Courier Services) (“MCS”) is a subsidiary owned 80% by AMG and provides transportation services to the Company, providing extended reach for shipments where the Company does not have facilities or equipment. The Company also provides certain shared services (primarily accounting services) to MCS.

McAllister Courier Inc. is a subsidiary owned 50% by AMG and provides transportation services to the Company, providing extended reach for shipments where the Company does not have facilities or equipment.

TDS Logistics Ltd. (“TDS”) is a subsidiary owned 50% by AMG and provides transportation services to the Company, providing additional capacity where the Company can sub-contract deliveries to take advantage of coincidences of delivery. Similarly, the Company provides transportation services to TDS. The Company also provides certain shared services (primarily accounting services) to TDS and recovers certain lease costs from TDS.

Med Express is a subsidiary owned 50% by AMG and provides transportation services to the Company, providing extended reach for shipments where the Company does not have facilities or equipment.

AWA Transportation & Logistics Inc. was acquired by AMG on February 28, 2020. AWA provides transportation services to the Company, providing extended reach for shipments where the Company does not have its own facilities or equipment.

D.C. Racking and Maintenance Inc. and Logiserv Inc. are owned by Cameron Joyce, a director of the Company. The Company’s Healthcare Logistics segment purchases warehouse racking and racking-related maintenance and repair services from both D.C. Racking and Maintenance Inc. and Logiserv Inc.

C-GHBS Inc. is a subsidiary of AMG and provides air travel services to the Company.

Bulldog Hockey Inc. is a subsidiary of AMG and provides sports and entertainment services to the Company.

## Andlauer Healthcare Group Inc.

### Notes to Consolidated Financial Statements for the three months ended March 31, 2020 and 2019

(In thousands of Canadian dollars, except shares, share price and earnings per share)

#### 13. Related parties (continued)

	<u>Three months ended</u>	
	<u>March 31,</u> <u>2020</u>	<u>March 31,</u> <u>2019</u>
<b>Revenue</b>		
<b>Transportation services</b>		
TDS Logistics Ltd.	\$ 182	\$ 177
1708998 Ontario Limited (Medical Courier Services)	3	1
<b>Facility rent recovery</b>		
TDS Logistics Ltd.	164	164
Andlauer Management Group Inc.	-	80
<b>Shared service recovery</b>		
TDS Logistics Ltd.	63	63
Andlauer Properties and Leasing Inc.	5	5
Andlauer Management Group Inc.	3	3
9143-5271 Quebec Inc.	8	8
1708998 Ontario Limited (Medical Courier Services)	3	3
<b>Equipment rental recovery</b>		
TDS Logistics Ltd.	91	91
McAllister Courier Inc.	3	-
<b>Expenses</b>		
<b>Transportation services</b>		
McAllister Courier Inc.	232	240
1708998 Ontario Limited (Medical Courier Services)	46	64
TDS Logistics Ltd.	188	5
AWA Transportation & Logistics Inc.	74	-
<b>Contract labour services</b>		
Ready Staffing Solutions Inc.	1,070	999
<b>Equipment rent</b>		
Andlauer Properties and Leasing Inc.	406	326
<b>Shared services</b>		
Andlauer Management Group Inc.	-	177
<b>Facility rent</b>		
Andlauer Properties and Leasing Inc.	355	116
9143-5271 Quebec Inc.	319	287
<b>Maintenance services</b>		
D.C. Racking and Maintenance Inc. and Logiserv Inc.	26	13
<b>Travel services</b>		
C-GHBS Inc.	32	-

## Andlauer Healthcare Group Inc.

### Notes to Consolidated Financial Statements for the three months ended March 31, 2020 and 2019

(In thousands of Canadian dollars, except shares, share price and earnings per share)

#### 13. Related parties (continued)

	March 31, 2019	December 31, 2019
<b>Trade receivables due from related parties</b>		
Andlauer Management Group Inc.	\$ -	\$ 60
TDS Logistics Ltd.	424	380
Andlauer Properties and Leasing Inc.	3	-
McAllister Courier Inc.	3	-
1708998 Ontario Limited (Medical Courier Services)	2	-
9143-5271 Quebec Inc.	-	1
Total trade receivables	\$ 432	\$ 441
<b>Due from related parties</b>		
Andlauer Management Group Inc.	2	53
Andlauer Properties and Leasing Inc.	-	186
TDS Logistics Ltd.	205	-
	207	239
<b>Total due from related parties</b>	\$ 639	\$ 680
<b>Trade payables due to related parties</b>		
Ready Staffing Solutions Inc.	\$ 122	\$ 397
McAllister Courier Inc.	45	71
TDS Logistics Ltd.	18	100
Andlauer Properties and Leasing Inc.	-	1,196
Med Express	-	1
D.C. Racking and Maintenance Inc.	-	1
Logiserv Inc.	18	69
Bulldog Hockey Inc.	-	28
C-GHBS Inc.	-	153
Total trade payables	203	2,016
<b>Due to related parties</b>		
M. Andlauer	-	161
TDS Logistics Ltd.	160	174
	160	335
<b>Total due to related parties</b>	\$ 363	\$ 2,351

#### Key management personnel

The Company's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those individuals having authority and responsibility for planning, directing and controlling the activities of the Company and include the Company's CEO, four named executive officers comprising key management and the Board of Directors.

During the three months ended March 31, 2020, the Company recorded \$1,120 (March 31, 2019 - \$598) related to key management personnel salaries and benefits, share-based compensation, and director fees.

## Andlauer Healthcare Group Inc.

### Notes to Consolidated Financial Statements for the three months ended March 31, 2020 and 2019

(In thousands of Canadian dollars, except shares, share price and earnings per share)

#### 14. Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, as well as the level of dividends and distributions to ordinary shareholders.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position. The Company monitors capital using a net leverage ratio, calculated as net debt divided by the last twelve months' earnings before interest, taxes, depreciation and amortization ("EBITDA"). The Company seeks to keep its net leverage ratio below 3.0 in the ordinary course of business.

	March 31, 2020	December 31, 2019
Total liabilities	\$ 148,910	\$ 151,490
Less: cash and cash equivalents	(16,797)	(18,712)
Net debt	132,113	132,778
Last twelve months' net income	30,988	30,345
Last twelve months' interest income	(898)	(1,004)
Last twelve months' interest expense	3,848	3,503
Last twelve months' income tax expense	12,395	12,004
Last twelve months' depreciation and amortization	25,812	25,706
Last twelve months' EBITDA	72,145	70,554
Net leverage ratio	1.83	1.88

#### 15. Subsequent event

##### COVID-19

During the first quarter of 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian federal and provincial governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in Canada resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable. The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect our business is not known at this time. The Company's pandemic management response team meets regularly to review procedures, service levels, news, and Health Canada updates to address any challenges as they arise. At this time, management does not believe there is any immediate risk of significant disruption to the Company's services. In the event of a future significant disruption to service, the Company will work closely with clients, suppliers and regulatory authorities to prioritize the supply and delivery of essential medications and supplies. The Company continues to closely monitor this situation and will provide appropriate updates as required.