



Unaudited Interim Condensed Consolidated
Financial Statements of

**ANDLAUER HEALTHCARE
GROUP INC.**

For the three and nine months ended September 30, 2022 and 2021

Andlauer Healthcare Group Inc.

Consolidated Balance Sheets

As at September 30, 2022 and December 31, 2021

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

Assets	Note	September 30, 2022	December 31, 2021
Current assets			
Cash and cash equivalents		\$ 50,683	\$ 24,990
Trade and other receivables		98,987	90,093
Inventories		3,268	2,331
Prepaid expenses and other		6,132	4,656
Due from related parties	17	54	108
		159,124	122,178
Non-current assets			
Long-term deposits and other		990	847
Property, plant and equipment	5	174,882	178,112
Goodwill and intangible assets	6	366,930	335,200
Deferred income taxes	13	6,998	7,832
		708,924	644,169
Total Assets		\$ 708,924	\$ 644,169
Liabilities and Equity			
Current liabilities			
Revolving credit facility	7	\$ -	\$ 11,000
Accounts payable and accrued liabilities		43,562	39,404
Current portion of lease liabilities	14	27,279	26,446
Income taxes payable		19,475	13,679
		90,316	90,529
Long-term liabilities			
Lease liabilities	14	91,469	100,517
Deferred income taxes	13	50,987	50,430
Due to related parties	17	123	1,286
Term facility	7	49,489	49,288
		282,384	292,050
Total Liabilities		282,384	292,050
Equity			
Common share capital	9	727,543	719,936
Contributed surplus	11	5,764	4,967
Accumulated other comprehensive income		22,414	4,899
Merger reserve	2	(488,916)	(488,916)
Retained earnings		159,735	111,233
		426,540	352,119
Commitments and contingencies	16		
Total Liabilities and Equity		\$ 708,924	\$ 644,169

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 and nine months ended September 30, 2022 and 2021

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

	Note	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Revenue	12	\$ 164,898	\$ 104,199	\$ 482,651	\$ 307,090
Operating Expenses					
Cost of transportation and services		81,034	47,501	236,508	136,076
Direct operating expenses		28,262	21,393	81,291	63,582
Selling, general and administrative expenses		11,294	8,259	34,676	26,148
Depreciation and amortization		16,448	10,250	47,997	29,033
		<u>137,038</u>	<u>87,403</u>	<u>400,472</u>	<u>254,839</u>
Operating Income		27,860	16,796	82,179	52,251
Share of profit of equity-accounted investee, net of tax	4	-	1,004	-	2,098
Interest expense	15	(1,746)	(1,570)	(4,991)	(4,654)
Interest income		86	25	203	166
Other income (expenses)		(236)	(24)	(391)	104
		<u>25,964</u>	<u>16,231</u>	<u>77,000</u>	<u>49,965</u>
Income before income taxes		25,964	16,231	77,000	49,965
Current income tax expense	13	7,373	4,609	24,375	14,530
Deferred income tax recovery	13	(404)	(566)	(3,826)	(1,415)
		<u>6,969</u>	<u>4,043</u>	<u>20,549</u>	<u>13,115</u>
Net income		\$ 18,995	\$ 12,188	\$ 56,451	\$ 36,850
Net earnings per share					
Basic earnings per share	10	\$ 0.45	\$ 0.32	\$ 1.35	\$ 0.96
Diluted earnings per share	10	\$ 0.44	\$ 0.31	\$ 1.32	\$ 0.94
Other comprehensive income					
Net income		\$ 18,995	\$ 12,188	\$ 56,451	\$ 36,850
Foreign currency translation adjustment		13,907	-	17,515	-
Other comprehensive income for the period		<u>13,907</u>	<u>-</u>	<u>17,515</u>	<u>-</u>
Total comprehensive income for the period		\$ 32,902	\$ 12,188	\$ 73,966	\$ 36,850

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

Andlauer Healthcare Group Inc.
Consolidated Statements of Changes in Equity
For the nine months ended September 30, 2022 and 2021

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

	Number of shares (thousands) (note 9)	Share capital (note 9)	Accumulated other compre- hensive income	Merger reserve (note 2)	Contributed surplus (note 11)	Retained earnings	Total equity
Balance at December 31, 2021	41,669	\$ 719,936	\$ 4,899	\$ (488,916)	\$ 4,967	\$ 111,233	\$ 352,119
Net income and comprehensive income for the period	-	-	17,515	-	-	56,451	73,966
Shares issued in connection with business combinations (note 4)	155	7,500	-	-	-	-	7,500
Transaction costs, net of tax (notes 4, 9, 13)	-	(63)	-	-	-	-	(63)
Share-based compensation (note 11)	33	170	-	-	797	-	967
Dividends (note 9)	-	-	-	-	-	(7,949)	(7,949)
Balance at September 30, 2022	41,857	\$ 727,543	\$ 22,414	\$ (488,916)	\$ 5,764	\$ 159,735	\$ 426,540
Balance at December 31, 2020	37,603	\$ 549,662	\$ -	\$ (488,916)	\$ 4,448	\$ 29,133	\$ 94,327
Net income and comprehensive income for the period	-	-	-	-	-	36,850	36,850
Shares issued in connection with business combination (note 4)	758	25,000	-	-	-	-	25,000
Transaction costs (note 4)	-	(78)	-	-	-	-	(78)
Share-based compensation	119	1,030	-	-	788	-	1,818
Dividends (note 9)	-	-	-	-	-	(5,771)	(5,771)
Balance at September 30, 2021	38,480	\$ 575,614	\$ -	\$ (488,916)	\$ 5,236	\$ 60,212	\$ 152,146

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

Andlauer Healthcare Group Inc.
Consolidated Statements of Cash Flow
For the nine months ended September 30, 2022 and 2021

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

	Note	September 30, 2022	September 30, 2021
Operating activities			
Net income for the period		\$ 56,451	\$ 36,850
Changes not involving cash:			
Depreciation and amortization		47,997	29,033
Amortization of capitalized financing costs	7	201	175
Share-based compensation	11	967	1,392
Share of profit of equity-accounted investee, net of tax	4	-	(2,098)
Deferred income tax recovery	13	(3,826)	(1,415)
Loss on disposal of property, plant and equipment		20	72
Net gain on derecognition of right-of-use assets	14	-	(142)
		<u>101,810</u>	<u>63,867</u>
Changes in non-cash operating working capital:			
Trade and other receivables		(3,120)	(12,915)
Inventories		(256)	(89)
Accounts payable and accrued liabilities		2,005	3,648
Income taxes payable		1,282	2,197
Net change in other operating working capital balances		(1,338)	(966)
Cash flows from operating activities		<u>100,383</u>	<u>55,742</u>
Financing activities			
Dividends	9	(7,949)	(5,771)
Principal repayments on lease liabilities	14	(21,688)	(18,316)
Net change in related party balances		(777)	(1,840)
Proceeds from revolving credit facility	7	12,000	50,000
Proceeds from term facility	7	-	25,000
Repayment of revolving credit facility	7	(23,000)	(30,000)
Net financing costs on credit facilities	7	-	(621)
Proceeds from issuance of share capital		-	426
Transaction costs recorded in share capital	9	(63)	(78)
Cash flows (used in) from financing activities		<u>(41,477)</u>	<u>18,800</u>
Investing activities			
Purchase of property, plant and equipment		(14,725)	(5,128)
Proceeds on disposal of property, plant and equipment		1,021	33
Purchase of intangible assets	6	(1,607)	(990)
Acquisition of equity accounted investee	4	-	(7,648)
Business combinations, net of cash acquired	4	(19,318)	(76,644)
Cash flows used in investing activities		<u>(34,629)</u>	<u>(90,377)</u>
Net increase (decrease) in cash and cash equivalents		24,277	(15,835)
Effect of foreign currency translation on cash and cash equivalents		1,416	-
Cash and cash equivalents, beginning of period		<u>24,990</u>	<u>30,148</u>
Cash and cash equivalents, end of period		<u>\$ 50,683</u>	<u>\$ 14,313</u>

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

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

1. Reporting entity

Andlauer Healthcare Group Inc. (“AHG”, or the “Company”) was incorporated under the Ontario Business Corporations Act with its head office located at 100 Vaughan Valley Blvd. 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 and the United States.

In addition to the shares issued to the public, Andlauer Management Group Inc. (“AMG”) holds 23.6 million multiple voting shares and 10,200 subordinate voting shares of AHG, representing approximately 56.4% of the issued and outstanding shares and 83.8% of the voting power attached to all of the shares. AMG is owned and controlled by Michael Andlauer, Chief Executive Officer, Chief Operating Decision Maker (“CODM”), 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, 2021 and 2020.

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 November 8, 2022.

b) Basis of measurement

These consolidated financial statements were prepared on a going concern basis under the historical cost method except for share based compensation and business combinations, which were recorded at fair value.

Common control transaction

These consolidated financial statements comprise the results of AHG and Associated Logistics Solutions Inc., Credo Canada Systems Inc., 2186940 Ontario Inc., Skelton Canada Inc., and their respective subsidiaries. Prior to the Company’s initial public offering (“IPO”) on December 11, 2019, certain of AHG’s subsidiaries (Associated Logistics Solutions Inc., Credo Canada Systems Inc., 2186940 Ontario Inc. and their respective subsidiaries at that time – collectively, the “AHG Entities”) were owned 100% by AMG. Pursuant to a share purchase agreement between AHG and AMG, and in connection with a corporate reorganization immediately prior to the IPO, AHG acquired a 100% ownership interest in the AHG Entities based on the value of consideration of \$577,625. Total net parent investment immediately prior to the IPO 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 parties under common control of AMG at the time of the acquisition. 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.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

2. Basis of presentation (continued)

c) Basis of consolidation

(i) Business combinations

The Company accounts for acquired businesses using the acquisition method of accounting by recording assets acquired and liabilities assumed at their respective fair values. The Company measures goodwill as the fair value of the consideration transferred including the fair value of liabilities resulting from contingent consideration arrangements, less the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured at fair value as of the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

(ii) Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The Company controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are aligned with the policies adopted by the Company.

(iii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

d) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand. The functional currency of Canadian operations is the Canadian dollar and the functional currency of U.S. operations is the U.S. dollar.

e) 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, 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, 2021.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

3. Segment reporting

The Company is organized into operating segments, which aggregate into two 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 that follow.

The Company evaluates performance based on the various financial measures of its 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 September 30, 2022 and 2021 and for the three months then ended:

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at September 30, 2022 and for the three months then ended					
Revenue	\$ 130,036	\$ 48,017	\$ 1,113	\$ (14,268)	\$ 164,898
Segment income before tax	19,608	6,327	29	-	25,964
Interest income	(795)	(22)	903	-	86
Interest expense	(921)	(557)	(268)	-	(1,746)
Depreciation and amortization	(12,742)	(3,706)	-	-	(16,448)
Segment net income	14,410	4,616	(31)	-	18,995
Segment total assets	554,389	175,229	736,520	(757,214)	708,924
Additions of ROU assets	3,296	-	-	-	3,296
Capital expenditures	7,097	466	-	-	7,563
Segment total liabilities	248,676	92,951	30,464	(89,707)	282,384
As at September 30, 2021 and for the three months then ended					
Revenue	\$ 80,253	\$ 33,457	\$ 945	\$ (10,456)	\$ 104,199
Segment income before tax	12,817	3,598	(184)	-	16,231
Interest income	(789)	15	799	-	25
Interest expense	(903)	(550)	(117)	-	(1,570)
Depreciation and amortization	(7,234)	(3,016)	-	-	(10,250)
Segment net income	9,751	2,654	(217)	-	12,188
Segment total assets	272,161	130,702	596,580	(603,444)	395,999
Additions of ROU assets	1,955	107	-	-	2,062
Capital expenditures	1,046	217	-	-	1,263
Segment total liabilities	190,083	70,157	31,690	(48,077)	243,853

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

3. Segment reporting (continued)

The following table identifies selected financial data as at September 30, 2022 and 2021 and for the nine months then ended:

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at September 30, 2022 and for the nine months then ended					
Revenue	\$ 385,554	\$ 135,029	\$ 3,353	\$ (41,285)	\$ 482,651
Segment income before tax	61,025	16,252	(277)	-	77,000
Interest income	(2,341)	(67)	2,611	-	203
Interest expense	(2,721)	(1,611)	(659)	-	(4,991)
Depreciation and amortization	(37,338)	(10,659)	-	-	(47,997)
Segment net income	44,935	11,884	(368)	-	56,451
Segment total assets	554,389	175,229	736,520	(757,214)	708,924
Additions of ROU assets	9,437	198	-	-	9,635
Additions of property, plant and equipment through business combinations ¹	-	5,159	-	-	5,159
Capital expenditures	13,267	1,458	-	-	14,725
Segment total liabilities	248,676	92,951	30,464	(89,707)	282,384
As at September 30, 2021 and for the nine months then ended					
Revenue	\$ 233,770	\$ 101,455	\$ 2,835	\$ (30,970)	\$ 307,090
Segment income before tax	39,181	11,787	(1,003)	-	49,965
Interest income	(2,347)	108	2,405	-	166
Interest expense	(2,668)	(1,634)	(352)	-	(4,654)
Depreciation and amortization	(19,996)	(9,037)	-	-	(29,033)
Segment net income	29,234	8,688	(1,072)	-	36,850
Segment total assets	272,161	130,702	596,580	(603,444)	395,999
Additions of ROU assets	19,634	11,010	-	-	30,644
Additions of property, plant and equipment through business combinations ¹	27,840	-	-	-	27,840
Capital expenditures	19,984	1,949	-	-	21,933
Segment total liabilities	190,083	70,157	31,690	(48,077)	243,853

¹ Includes \$3,798 for the period ended September 30, 2022 (2021 - \$11,035) of ROU assets acquired through business combinations

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. The Company also charges fees for services and costs incurred from its corporate office to subsidiaries. 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 for the periods ended September 30, 2022 and 2021.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

4. Business combinations

On March 1, 2022, the Company acquired all of the issued and outstanding shares of Logistics Support Unit (LSU) Inc. ("LSU"), a leading third-party logistics provider offering specialty pharmacy, warehousing, distribution and order management services throughout Canada to national and international companies, as well as government clients in the pharmaceutical, medical and biotechnology sectors, for \$26,747, the estimated fair value of the business acquired. The acquisition was financed through a combination of cash on hand, drawing \$12,000 on the credit facilities and by issuing 154,639 subordinate voting shares totaling \$7,500 to the shareholder of LSU.

On March 1, 2021, the Company acquired all of the issued and outstanding shares of Skelton Canada Inc. ("Skelton"), a leading transportation partner to the Canadian pharmaceutical and biologics industry for \$107,306, the estimated fair value of the business acquired. The acquisition was financed through a combination of cash on hand, drawing \$75,000 on the credit facilities and by issuing 757,576 subordinate voting shares totaling \$25,000 to the shareholders of Skelton. As part of the same transaction, the Company acquired a 49% interest in Skelton USA Inc. ("Skelton USA"), whose wholly-owned subsidiary, Skelton Truck Lines, Inc., operates domestically in the United States, for cash consideration of \$7,642. Management determined that it did not control Skelton USA until AHG acquired the remaining 51% of Skelton USA on November 1, 2021. Accordingly, between March 1, 2021 and September 30, 2021, the Company accounted for its investment in Skelton USA using the equity method of accounting.

Under the equity method of accounting, an equity investment is initially recorded at cost and is subsequently adjusted to reflect the investor's share of the net profit or loss of the associate. The Company's 49% share of total comprehensive income of Skelton USA for the period from March 1, 2021 to September 30, 2021 was \$2,098.

For the period from acquisition on March 1, 2022 to September 30, 2022, LSU contributed revenue of \$18,860 and net income before amortization of intangible assets acquired of \$2,173 (\$1,245 net of intangible amortization) to the Company's financial results.

For the period from acquisition on March 1, 2021 to September 30, 2021, Skelton contributed revenue of \$25,491 and net income of \$3,675 (\$1,393 net of intangible amortization) to the Company's financial results.

If the Company had acquired LSU and Skelton on January 1, 2022 and January 1, 2021 respectively, management estimates that consolidated revenue would have been approximately \$486,900 and \$315,000, respectively, and consolidated net income would have been approximately \$58,200 and \$37,500 respectively. In determining these amounts, management has assumed that the fair value adjustments that arose on the dates of acquisition would have been the same had the acquisitions occurred on January 1, 2022 and January 1, 2021 respectively.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

4. Business combination (continued)

During the nine months ended September 30, 2022, transaction costs of \$345 (September 30, 2021 – \$911) have been expensed in selling, general and administrative expenses in the consolidated statements of income and comprehensive income and \$63 (2021 – \$78), net of deferred taxes, has been charged to share capital in relation to these acquisitions.

The following table summarizes the acquisition date fair value of identifiable net assets and goodwill acquired:

Identifiable assets acquired and liabilities assumed	LSU (March 1, 2022)	Skelton (March 1, 2021)
Cash and cash equivalents	\$ (71)	\$ 5,662
Trade and other receivables	4,636	4,590
Inventories	663	451
Prepaid expenses and other	140	274
Property, plant and equipment, including ROU assets	5,159	27,840
Intangible assets	15,900	39,100
Accounts payable and accrued liabilities	(1,778)	(1,384)
Income taxes payable	(4,160)	(1,005)
Lease liabilities	(3,398)	(7,121)
Deferred tax liabilities	(2,496)	(13,990)
Total identifiable net assets	14,595	54,417
Goodwill	12,152	52,889
Final purchase consideration	\$ 26,747	\$ 107,306

Trade and other receivables comprise gross amounts due of \$4,636 (2021 - \$4,590), all of which were expected to be collectible at the acquisition dates.

When measuring the fair value of property, plant and equipment, the Company considers market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

The Company attributes value to the customer relationships maintained by LSU and Skelton, and to the brands of each acquired entity. For the nine months ended September 30, 2022, the Company recorded intangible assets of \$12,700 (2021 - \$27,900) in connection with customer relationships and \$3,200 (2021 – \$11,200) in connection with the brands of its acquisitions. The customer relationships and brands are definite life intangible assets each of which will be amortized over 10 years.

The goodwill is principally attributable to the premium of established business operations, each with a strong reputation in healthcare logistics or specialized transportation, and the synergies expected to be achieved from integrating LSU and Skelton into the Company's existing business. Goodwill arising from the Company's business combinations has been allocated to the Healthcare Logistics segment for LSU and to the Specialized Transportation segment for Skelton.

Of the goodwill acquired through the business combinations, \$4,850 (2021 – \$nil) is deductible for tax purposes.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

5. Property, plant and equipment

Reconciliation of the net carrying amounts for each class of property, plant and equipment is summarized below:

	Facilities ¹	Furniture and fixtures	Leasehold improvements	Logistics and transportation equipment ¹	Total
Cost					
Balance at December 31, 2021	\$ 155,855	\$ 8,664	\$ 21,433	\$ 154,314	\$ 340,266
Additions	2,171	254	1,415	20,520	24,360
Additions through business combinations (note 4)	2,756	-	672	1,731	5,159
Dispositions	-	(7)	(29)	(1,657)	(1,693)
Foreign currency adjustments	465	18	124	1,745	2,352
Balance at September 30, 2022	161,247	8,929	23,615	176,653	370,444
Accumulated depreciation					
Balance at December 31, 2021	\$ 66,512	\$ 6,769	\$ 11,357	\$ 77,516	\$ 162,154
Depreciation for the period	13,046	301	1,796	18,474	33,617
Dispositions	-	(3)	-	(649)	(652)
Foreign currency adjustments	52	2	7	382	443
Balance at September 30, 2022	79,610	7,069	13,160	95,273	195,562
Net carrying amounts					
At December 31, 2021	\$ 89,343	\$ 1,895	\$ 10,076	\$ 76,798	\$ 178,112
At September 30, 2022	\$ 81,637	\$ 1,860	\$ 10,455	\$ 80,930	\$ 174,882

¹ Facilities and certain logistics and transportation equipment assets are ROU assets, capitalized in accordance with IFRS 16. Refer to note 14.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

6. Goodwill and intangible assets

	Goodwill	Customer relationships	Brand	Software	Total
Cost					
Balance at December 31, 2021	\$ 176,737	\$ 147,254	\$ 37,950	\$ 7,668	\$ 369,609
Additions	-	-	-	1,607	1,607
Additions through business combinations (note 4)	12,152	12,700	3,200	-	28,052
Foreign currency adjustments	7,790	7,266	2,171	-	17,227
Balance at September 30, 2022	196,679	167,220	43,321	9,275	416,495
Accumulated amortization					
Balance at December 31, 2021	\$ -	\$ 28,193	\$ 1,376	\$ 4,840	\$ 34,409
Amortization for the period	-	10,784	3,218	378	14,380
Foreign currency adjustments	-	590	186	-	776
Balance at September 30, 2022	-	39,567	4,780	5,218	49,565
Net carrying amounts					
At December 31, 2021	\$ 176,737	\$ 119,061	\$ 36,574	\$ 2,828	\$ 335,200
At September 30, 2022	\$ 196,679	\$ 127,653	\$ 38,541	\$ 4,057	\$ 366,930

7. Credit facilities

	September 30, 2022	December 31, 2021
Revolving credit facility	\$ -	\$ 11,000
Term facility	50,000	50,000
	50,000	61,000
Less: capitalized financing costs	(511)	(712)
Credit facilities	\$ 49,489	\$ 60,288

Recorded in the consolidated balance sheets as follows:

	September 30, 2022	December 31, 2021
Revolving credit facility	\$ -	\$ 11,000
Term facility	49,489	49,288
Credit facilities	\$ 49,489	\$ 60,288

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

7. Credit facilities (continued)

The movement in credit facilities from December 31, 2021 is as follows:

	Credit Facilities
Balance at December 31, 2021	\$ 60,288
Changes from financing cash flows	
Issuance of borrowings – revolving credit facility	12,000
	72,288
Repayment of revolving credit facility	(23,000)
Non-cash movements	
Amortization of capitalized financing costs	201
Balance at September 30, 2022	\$ 49,489

The Company is party to credit facilities with a syndicate of lenders. On February 19, 2021, in connection with the anticipated acquisitions of Skelton and Skelton USA, the credit facilities were amended to increase the amounts available to be drawn under the revolving credit facility and the term facility each by \$25,000. The amended credit facilities comprise a revolving credit facility in the aggregate principal amount of up to \$100,000 and a term facility in the aggregate principal amount of up to \$50,000. The remaining terms and conditions of the credit facilities were unchanged, except that they will mature and be due and payable on March 1, 2025. There is no repayment schedule for either the revolving credit facility or the term facility, except at maturity; however, the Company classifies the revolving credit facility in current liabilities because of its intention to reduce drawn amounts with cash flow from operations within twelve months. Financing costs of \$621, which apply to the credit facilities in aggregate, were capitalized in the term facility in connection with the amendment.

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, and letters of credit, in each case, plus the applicable margin in effect from time to time. At September 30, 2022, the credit facilities comprise bankers' acceptances drawn at an interest rate of 5.2% (December 31, 2021 – 1.9%).

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 September 30, 2022, the Company was in compliance with all of its covenants under the credit facilities.

Amounts recognized in the consolidated statements of income and comprehensive income in connection with interest expense on the credit facilities for the three and nine months ended September 30, 2022 was \$489 and \$1,294 (2021 – \$362 and \$1,043 respectively).

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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8. Financial instruments and financial risk management

Accounting classifications and fair values

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, long-term deposits and other, accounts payable and accrued liabilities and its credit facilities (refer to note 7). The Company believes that the carrying amount of each of these items is a reasonable approximation of fair value given the short-term nature of the financial instruments.

As the credit facilities bear interest at a floating rate subject to fluctuations in the bank prime rate the carrying value of the debt approximates fair value.

9. 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.

As of the date hereof, all of the multiple voting shares and 10,200 subordinate voting shares are owned by AMG. The following table summarizes the number of common shares issued:

	Number of common shares (in thousands)			Share capital (in thousands of dollars)		
	Multiple voting common shares	Subordinate voting common shares	Total common shares	Multiple voting common shares	Subordinate voting common shares	Total share capital
Balance at December 31, 2021	23,600	18,069	41,669	\$ 354,000	\$ 365,936	\$ 719,936
Shares issued in connection with business combination (note 4)	-	155	155	-	7,500	7,500
Shares issued in connection with the exercise of options	-	33	33	-	170	170
Transaction costs, net of tax	-	-	-	-	(63)	(63)
Balance at September 30, 2022	23,600	18,257	41,857	\$ 354,000	\$ 373,543	\$ 727,543

Transaction costs of \$63, net of deferred taxes, have been offset against subordinate voting shares in connection with acquisitions made during the nine months ended September 30, 2022 (2021 – \$78) (note 4).

Dividends to subordinate voting and multiple voting shareholders

During the nine months ended September 30, 2022, the Company declared total dividends of \$7,949, or \$0.19 per common share (September 30, 2021 – \$5,771, or \$0.15 per common share), on subordinate voting and multiple voting shares. Included in accounts payable and accrued liabilities as at September 30, 2022 is \$2,930 (September 30, 2021 – \$1,924) for dividends paid on October 17, 2022 and October 15, 2021, to common shareholders of record on September 30, 2022 and 2021 respectively.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

10. Earnings per share

Basic earnings per share

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

(in thousands of dollars and number of shares)	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Net income	\$ 18,995	\$ 12,188	\$ 56,451	\$ 36,850
Weighted average number of common shares	41,835	38,477	41,794	38,282
Earnings per share – basic	\$ 0.45	\$ 0.32	\$ 1.35	\$ 0.96

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:

(in thousands of dollars and number of shares)	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Net income	\$ 18,995	\$ 12,188	\$ 56,451	\$ 36,850
Weighted average number of common shares	41,835	38,477	41,794	38,282
Dilutive effects:				
Stock options	822	941	815	900
Deferred share units	44	31	42	27
Weighted average number of diluted common shares	42,701	39,449	42,651	39,209
Earnings per share – diluted	\$ 0.44	\$ 0.31	\$ 1.32	\$ 0.94

11. 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 treasury 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 1.65 million options, of which 47 thousand options were exercised during the nine months ended September 30, 2022 (September 30, 2021 – 168 thousand). Of the options outstanding at September 30, 2022, a total of 635 thousand (December 31, 2021 – 667 thousand) are held by non-executive directors; 225 thousand (December 31, 2021 – 225 thousand) are held by executive officers; with the remaining 295 thousand (December 31, 2021 – 310 thousand) held by management personnel.

Andlauer Healthcare Group Inc.

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For the three and nine months ended September 30, 2022 and 2021

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11. Share-based payment arrangements (continued)

Stock option plan (equity-settled) (continued)

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

(in thousands of options and in dollars)	Nine months ended September 30, 2022		Nine months ended September 30, 2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	1,202	\$ 15.00	1,644	\$ 15.00
Exercised	(47)	15.00	(168)	15.00
Forfeited	-	-	(18)	15.00
Ending balance	1,155	\$ 15.00	1,458	\$ 15.00
Options exercisable	568	\$ 15.00	501	\$ 15.00

The Company recognized compensation expense of \$167 and \$502 for the three and nine months ended September 30, 2022 respectively (2021 – \$309 and \$925 respectively), with corresponding increases 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 and nine months ended September 30, 2022, the Company recognized a compensation expense of \$155 and \$465 respectively, with corresponding increases to contributed surplus (2021 – \$155 and \$467 respectively).

The table below summarizes the changes in the outstanding DSUs:

(thousands of DSUs)	September 30, 2022	September 30, 2021
Opening balance	37	23
Granted	10	11
Closing balance	47	34

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12. 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), and revenue disaggregated by primary geographical markets. All of the revenue generated in the United States comprises ground transportation revenue.

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Major products/service lines				
Logistics and distribution	\$ 42,574	\$ 28,953	\$ 117,664	\$ 85,734
Packaging solutions	5,443	4,504	17,365	15,721
Healthcare Logistics segment	48,017	33,457	135,029	101,455
Ground transportation	105,353	60,750	309,180	176,602
Air freight forwarding	7,704	6,155	26,834	19,190
Dedicated and last mile delivery	16,980	13,348	49,540	37,978
Intersegment revenue	(13,156)	(9,511)	(37,932)	(28,135)
Specialized Transportation segment	116,881	70,742	347,622	205,635
Total revenue	\$ 164,898	\$ 104,199	\$ 482,651	\$ 307,090
	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Primary geographical markets				
Canada	\$ 130,377	\$ 104,199	\$ 385,289	\$ 307,090
United States	34,521	-	97,362	-
Total revenue	\$ 164,898	\$ 104,199	\$ 482,651	\$ 307,090

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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13. Income taxes

a) Amounts recognized in profit or loss

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Current income tax expense:				
Current taxes on income for the reporting period	\$ 7,373	\$ 4,609	\$ 24,375	\$ 14,266
Current taxes relating to previous periods and other adjustments	-	-	-	264
	7,373	4,609	24,375	14,530
Deferred income tax recovery:				
Recognition of tax benefits related to loss for the period	(166)	(117)	(574)	(489)
Origination and reversal of temporary differences	(238)	(449)	(3,252)	(862)
Deferred taxes relating to previous periods and other adjustments	-	-	-	(153)
Deductible temporary differences not recognized	-	-	-	89
	(404)	(566)	(3,826)	(1,415)
Income tax expense reported to the statements of income and comprehensive income	\$ 6,969	\$ 4,043	\$ 20,549	\$ 13,115

Total cash outflow for actual taxes paid for the three and nine months ended September 30, 2022 was \$7,221 and \$22,818 respectively (2021 – \$3,625 and \$12,785 respectively).

b) Amounts recognized directly in equity

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Transaction costs (recovery), before tax	\$ -	\$ -	\$ 86	\$ 78
Tax	-	-	(23)	-
Transaction costs, net of tax	\$ -	\$ -	\$ 63	\$ 78

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

13. Income taxes (continued)

c) Reconciliation of effective tax rate

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Income before income taxes	\$ 25,964	\$ 16,231	\$ 77,000	\$ 49,965
Consolidated Canadian federal and provincial income tax rate	26.5%	26.5%	26.5%	26.5%
Income tax expense based on statutory rate	6,880	4,301	20,405	13,241
Increase (decrease) in income taxes resulting from non-deductible (non-taxable) items or other adjustments	89	(428)	144	(296)
Impact of varying statutory tax rates of subsidiaries	-	(30)	-	(30)
Deductible temporary differences not recognized	-	89	-	89
Taxes relating to previous periods and other adjustments	-	111	-	111
Total income tax expense	\$ 6,969	\$ 4,043	\$ 20,549	\$ 13,115

d) Deferred taxes

	September 30, 2022	December 31, 2021
Deferred tax assets	\$ 6,998	\$ 7,832
Deferred tax liabilities	(50,987)	(50,430)
Net deferred tax liability	\$ (43,989)	\$ (42,598)

e) Movement in deferred tax balances

	September 30, 2022	Recognized in equity	Recognized in income or loss	Acquired in business combina- tions (note 4)	Foreign currency adjustments	December 31, 2021
Plant and equipment	\$ (12,501)	\$ -	\$ 973	\$ (560)	\$ (522)	\$ (12,392)
Accounts payable and accrued liabilities	741	-	134	-	-	607
Intangibles	(41,734)	-	3,690	(2,107)	(2,331)	(40,986)
Benefit of losses carried forward	2,728	-	574	-	-	2,154
Leases	4,264	-	(764)	170	110	4,748
Transaction costs	2,513	23	(781)	-	-	3,271
Net deferred tax (liability) asset	\$ (43,989)	\$ 23	\$ 3,826	\$ (2,497)	\$ (2,743)	\$ (42,598)

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

13. Income taxes (continued)

e) Movement in deferred tax balances (continued)

	December 31, 2021	Recognized in equity	Recognized in income or loss	Acquired in business combina- tions	Foreign currency adjustments	September 30, 2021
Plant and equipment	\$ (12,392)	\$ -	574	\$ (7,019)	\$ (176)	\$ (5,771)
Accounts payable and accrued liabilities	607	-	111	-	-	496
Intangibles	(40,986)	-	855	(30,622)	(766)	(10,453)
Benefit of losses carried forward	2,154	237	125	-	-	1,792
Leases	4,748	-	(140)	1,693	42	3,153
Transaction costs	3,271	947	(45)	-	-	2,369
Net deferred tax asset (liability)	\$ (42,598)	\$ 1,184	1,480	\$ (35,948)	\$ (900)	\$ (8,414)

	September 30, 2021	Recognized in income or loss	Acquired in business combina- tions (note 4)	December 31, 2020
Plant and equipment	\$ (5,771)	\$ 796	\$ (5,515)	\$ (1,052)
Accounts payable and accrued liabilities	496	43	-	453
Intangibles	(10,453)	994	(10,362)	(1,085)
Benefit of losses carried forward	1,792	489	-	1,303
Leases	3,153	(218)	1,887	1,484
Transaction costs	2,369	(689)	-	3,058
Net deferred tax asset (liability)	\$ (8,414)	\$ 1,415	\$ (13,990)	\$ 4,161

f) Unrecognized deferred tax liabilities

As at September 30, 2022, temporary differences of \$40,390 (December 31, 2021 – \$40,390) exist in connection with wholly-owned investments in subsidiaries; and the related potential deferred tax liability of \$5,352 (December 31, 2021 – \$5,352) has not been recognized. The Company controls the dividend policies of its subsidiaries and controls the timing of payment of such dividends. Accordingly, the Company controls the timing of reversal of the related taxable temporary differences; and management is satisfied that they will not reverse in the foreseeable future.

g) Non-capital loss carryforwards

The Company recognized deferred tax assets in connection with certain losses for the current period on the basis that it will have sufficient future taxable profit.

The Company has total non-capital tax loss carry forwards of \$10,264 that begin to expire in 2039.

h) Uncertainty over income tax treatments

The calculation of current and deferred income taxes requires management to make certain judgements regarding the tax rules in jurisdictions where the Company performs activities. 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.

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14. Leases

The Company leases buildings and equipment in the operation of its Transportation and Logistics businesses. The Company is required to estimate the incremental borrowing rates used to discount lease liabilities if the interest rate implicit in the lease is not readily determined. The Company estimates 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. The average incremental borrowing rate for facilities for the nine months ended September 30, 2022 is 5.14% (year ended December 31, 2021 – 3.71%). Equipment lease terms range from 1 to 7 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 nine months ended September 30, 2022 is 4.78% for Specialized Transportation and 5.04% for Healthcare Logistics (year ended December 31, 2021 – 3.13% for Specialized Transportation; 2.66% for Healthcare Logistics).

Right-of-use assets – Facilities	As at and for the nine months ended September 30, 2022	As at and for the year ended December 31, 2021
Opening balance	\$ 89,343	\$ 71,484
Add: additions	2,171	26,144
Add: additions through business combinations	2,756	8,449
Less: derecognition	-	(1,347)
Less: depreciation	(13,046)	(15,527)
Foreign currency adjustments	413	140
Ending balance	\$ 81,637	\$ 89,343
<hr/>		
Right-of-use assets – Logistics and transportation equipment	As at and for the nine months ended September 30, 2022	As at and for the year ended December 31, 2021
Opening balance	\$ 33,443	\$ 27,256
Add: additions	7,464	7,431
Add: additions through business combinations	1,042	9,349
Less: depreciation	(8,565)	(10,622)
Foreign currency adjustments	88	29
Ending balance	\$ 33,472	\$ 33,443
<hr/>		
Net carrying amounts of right-of-use assets included in property, plant and equipment	September 30, 2022	December 31, 2021
Facilities	\$ 81,637	\$ 89,343
Logistics and transportation equipment	33,472	33,443
Balance	\$ 115,109	\$ 122,786

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14. Leases (continued)

Lease liabilities – Facilities	As at and for the nine months ended September 30, 2022	As at and for the year ended December 31, 2021
Opening balance	\$ 98,681	\$ 77,676
Add: additions	2,171	26,144
Add: additions through business combinations	2,006	8,475
Add: interest expense	2,752	3,700
Less: principal repayments	(12,462)	(13,756)
Less: interest payments	(2,752)	(3,700)
Foreign currency adjustments	420	142
Ending balance	\$ 90,816	\$ 98,681
<hr/>		
Lease liabilities – Logistics and transportation equipment	As at and for the nine months ended September 30, 2022	As at and for the year ended December 31, 2021
Opening balance	\$ 28,282	\$ 27,270
Add: additions	7,464	7,431
Add: additions through business combinations	1,392	4,918
Add: interest expense	876	1,138
Less: principal repayments	(9,226)	(11,353)
Less: interest payments	(876)	(1,138)
Foreign currency adjustments	20	16
Ending balance	\$ 27,932	\$ 28,282
<hr/>		
Cash lease principal payments	Nine months ended September 30, 2022	Year ended December 31, 2021
Repayments of lease principal	\$ (21,688)	\$ (25,109)
Total lease payments	\$ (21,688)	\$ (25,109)
<hr/>		
Lease liabilities	September 30, 2022	December 31, 2021
Facilities	\$ (90,816)	\$ (98,681)
Logistics and transportation equipment	(27,932)	(28,282)
Balance	\$ (118,748)	\$ (126,963)
<hr/>		
Lease liabilities included in consolidated balance sheets	September 30, 2022	December 31, 2021
Current	\$ (27,279)	\$ (26,446)
Non-current	(91,469)	(100,517)
Balance	\$ (118,748)	\$ (126,963)

Andlauer Healthcare Group Inc.

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14. Leases (continued)

Maturity analysis for lease liabilities – contractual undiscounted cash flows	September 30, 2022	December 31, 2021
Less than one year	\$ 32,420	\$ 30,839
One to 5 years	86,476	86,694
More than 5 years	15,818	23,360
Total undiscounted lease liabilities	\$ 134,714	\$ 140,893

Amounts recognized in the consolidated statements of income and comprehensive income in connection with interest expense for lease liabilities for the three and nine months ended September 30, 2022 was \$1,188 and \$3,628 respectively (September 30, 2021 – \$1,208 and \$3,611 respectively). Total cash outflow for leases for the three and nine months ended September 30, 2022 was \$8,542 and \$25,316 respectively (September 30, 2021 – \$7,454 and \$21,927 respectively).

Net investment lease	As at and for the nine months ended September 30, 2022	As at and for year ended December 31, 2021
Opening balance	\$ 784	\$ -
Add: additions	-	1,489
Add: interest received	10	29
Less: payments received	(540)	(705)
Less: interest income	(10)	(29)
Ending balance	\$ 244	\$ 784

In January 2021, the Company sub-leased a facility to a third party that had previously been classified as a right-of-use asset. The Company derecognized net book value of \$1,347 from right-of-use assets and established a net investment lease of \$1,489 resulting in a net gain of \$142 included in other income in connection with this facility. As at September 30, 2022 the current portion of \$244 (December 31, 2021 – \$723) in connection with this net investment lease is included in trade and other receivables. The long-term portion of \$nil (December 31, 2021 – \$61) is recorded in long-term deposits and other. The Company recognized \$10 of interest income for nine months ended September 30, 2022 (September 30, 2021 – \$24).

The table below sets out the current and long-term portions of the net investment lease:

Maturity analysis for net investment lease receivable – contractual undiscounted cash flows	September 30, 2022	December 31, 2021
Less than one year	\$ 245	\$ 734
One to 5 years	-	61
More than 5 years	-	-
Total undiscounted net investment lease receivable	\$ 245	\$ 795

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15. Interest expense

Interest expense recognized in income and comprehensive income	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Leases	\$ 1,188	\$ 1,208	\$ 3,628	\$ 3,611
Credit facilities	489	362	1,294	1,043
Other	69	-	69	-
Total interest expense	\$ 1,746	\$ 1,570	\$ 4,991	\$ 4,654

Interest expense recognized in the consolidated statements of income and comprehensive income equates to total interest paid for the periods ended September 30, 2022 and 2021.

16. Commitments and contingencies

- 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.
- As at September 30, 2022, the Company had outstanding letters of guarantee in the amount of \$365 (December 31, 2021 – \$365).
- The Company has made commitments to lease fleet equipment, with the terms to begin upon delivery of the equipment in 2022. Commitments range from 72 to 84 months and total \$5,564 (December 31, 2021 – \$8,512).
- The Company has made commitments to purchase fleet equipment totalling approximately \$13,809 (December 31, 2021 – \$7,820).

17. 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 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.

The Company recovers certain facilities lease costs from Andlauer Management Group Inc. ("AMG"). The Company also provides certain shared services (primarily accounting services) to AMG.

AHG acquired a 49% interest in Skelton USA on March 1, 2021 (note 4) which wholly owns Skelton Truck Lines, Inc. ("SKINC"). SKINC provides specialized 2-8°C transportation services to Skelton Canada Inc. in the United States, and Skelton Canada Inc. provides specialized 2-8°C transportation services to SKINC in Canada. On November 1, 2021, AHG acquired the remaining 51% of Skelton USA. Accordingly, transactions with SKINC have not been included in related party transactions in the tables below for the three and nine months ended September 30, 2022, but have been included for the period from March 1, 2021 to September 30, 2021.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2022 and 2021

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

17. Related parties (continued)

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Revenue				
Transportation services				
1708998 Ontario Limited (Medical Courier Services)	\$ 41	\$ 111	\$ 132	\$ 282
Skelton Truck Lines, Inc.	-	383	-	1,086
Shared service recovery				
Andlauer Properties and Leasing Inc.	5	5	15	14
Andlauer Management Group Inc.	3	13	9	62
9143-5271 Quebec Inc.	8	8	24	23
1708998 Ontario Limited (Medical Courier Services)	3	4	9	10
Expenses				
Transportation services				
1708998 Ontario Limited (Medical Courier Services)	37	41	104	128
Med Express Ltd.	14	5	27	5
Skelton Truck Lines, Inc.	-	79	-	300
Contract labour services				
Ready Staffing Solutions Inc.	1,762	1,325	4,799	3,492
Equipment rent				
Andlauer Properties and Leasing Inc.	557	588	1,749	1,713
Facility rent				
Andlauer Properties and Leasing Inc.	358	443	1,340	1,328
9143-5271 Quebec Inc.	383	383	1,149	1,149
Maintenance services				
D.C. Racking and Maintenance Inc. and Logiserv Inc.	-	12	14	18
Travel services				
C-GHBS Inc.	-	53	72	53
Capital Expenditures				
Purchases of logistics and transportation equipment				
Logiserv Inc.	-	-	47	-

Andlauer Healthcare Group Inc.

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

17. Related parties (continued)

	September 30, 2022	December 31, 2021
Trade receivables due from related parties		
Andlauer Properties and Leasing Inc.	\$ 13	\$ 74
Med Express Ltd.	-	2
1708998 Ontario Limited (Medical Courier Services)	31	32
	44	108
Due from related parties		
Andlauer Management Group Inc.	54	16
Former T.F. Boyle Transportation shareholders	-	92
	54	108
Total due from related parties	\$ 98	\$ 216
Trade payables due to related parties		
Ready Staffing Solutions Inc.	\$ 483	\$ 343
Andlauer Properties and Leasing Inc.	75	302
Logiserv Inc.	-	7
	558	652
Due to related parties		
Andlauer Properties and Leasing Inc.	123	254
Former Skelton Canada Inc. shareholders	-	1,032
	123	1,286
Total due to related parties	\$ 681	\$ 1,938

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.

Key management personnel compensation comprised the following:

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Key management compensation				
Salaries and benefits	\$ 876	\$ 837	\$ 2,622	\$ 2,473
Share-based payment arrangements	106	166	319	509
Director deferred share units	155	155	465	467
Total key management compensation	\$ 1,137	\$ 1,158	\$ 3,406	\$ 3,449

Andlauer Healthcare Group Inc.

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

18. 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.

	September 30, 2022	December 31, 2021
Revolving credit facility	\$ -	\$ 11,000
Total lease liabilities	118,748	126,963
Term facility	49,489	49,288
Less: cash and cash equivalents	(50,683)	(24,990)
Net debt	117,554	162,261
Last twelve months' net income	109,555	89,954
Last twelve months' interest income	(235)	(198)
Last twelve months' interest expense	6,556	6,219
Last twelve months' income tax expense	25,920	18,486
Last twelve months' depreciation and amortization	61,680	42,716
EBITDA	203,476	157,177
Net leverage ratio	0.58	1.03

19. COVID-19 pandemic

The extent to which the COVID-19 pandemic and its effect on the economy will impact the Company's business in the future remains uncertain and may lead to adverse changes in cash flows, working capital levels, debt balances, 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 Company's business is not known at this time. The Company's pandemic management response team meets regularly as needed 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, management will work closely with the Company's clients, suppliers and regulatory authorities to prioritize the supply and delivery of essential medications and supplies.

The Government of Canada introduced the Canada Emergency Wage Subsidy ("CEWS") as part of its COVID-19 response. The program was effective from March 2020 to October 2021 and provided a wage subsidy for entities that experienced revenue declines over the comparable period in the prior year. During the three and nine months ended September 30, 2021, the Company recorded a \$270, and \$1,157 respectively, reduction to direct operating expenses in connection with the CEWS for its Nova Pack Ltd. subsidiary.