



Unaudited Interim Condensed Consolidated
Financial Statements of

**ANDLAUER HEALTHCARE
GROUP INC.**

For the three months ended March 31, 2023 and 2022

Andlauer Healthcare Group Inc.

Consolidated Balance Sheets

As at March 31, 2023 and December 31, 2022

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

		March 31, 2023	December 31, 2022
Assets	Note		
Current assets			
Cash and cash equivalents		\$ 74,396	\$ 65,855
Trade and other receivables		101,336	98,423
Inventories		3,590	3,326
Prepaid expenses and other		6,490	4,416
Due from related parties	17	57	56
		<u>185,869</u>	<u>172,076</u>
Non-current assets			
Long-term deposits and other		895	997
Property, plant and equipment	5	172,002	175,880
Goodwill and intangible assets	6	353,011	357,698
Deferred income taxes	13	6,384	5,809
		<u></u>	<u></u>
Total Assets		\$ 718,161	\$ 712,460
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		\$ 42,191	\$ 42,918
Current portion of lease liabilities	14	26,159	26,547
Income taxes payable		14,970	16,313
		<u>83,320</u>	<u>85,778</u>
Long-term liabilities			
Lease liabilities	14	83,323	87,182
Deferred income taxes	13	47,318	48,609
Due to related parties	17	384	342
Term facility	7	49,624	49,557
		<u>263,969</u>	<u>271,468</u>
Total Liabilities		263,969	271,468
Equity			
Common share capital	9	727,835	727,835
Contributed surplus	11	6,031	5,806
Accumulated other comprehensive income		19,442	19,642
Merger reserve	2	(488,916)	(488,916)
Retained earnings		189,800	176,625
		<u>454,192</u>	<u>440,992</u>
Commitments and contingencies	16		
Total Liabilities and Equity		\$ 718,161	\$ 712,460

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, 2023 and 2022

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

	Note	March 31, 2023	March 31, 2022
Revenue	12	\$ 164,774	\$ 148,351
Operating Expenses			
Cost of transportation and services		84,179	72,698
Direct operating expenses		27,035	24,763
Selling, general and administrative expenses		13,110	11,237
Depreciation and amortization		16,760	15,491
		<u>141,084</u>	<u>124,189</u>
Operating Income		23,690	24,162
Interest expense	15	(1,933)	(1,554)
Interest income		599	112
Other income (expenses)		19	(267)
		<u>22,375</u>	<u>22,453</u>
Income before income taxes		22,375	22,453
Current income tax expense	13	7,685	7,711
Deferred income tax recovery	13	(1,838)	(1,729)
		<u>5,847</u>	<u>5,982</u>
Net income		\$ 16,528	\$ 16,471
Net earnings per share			
Basic earnings per share	10	\$ 0.39	\$ 0.39
Diluted earnings per share	10	\$ 0.39	\$ 0.39
Other comprehensive income			
Net income		\$ 16,528	16,471
Foreign currency translation adjustment		(200)	(2,967)
Other comprehensive loss for the period		(200)	(2,967)
Total comprehensive income for the period		\$ 16,328	\$ 13,504

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, 2023 and 2022

(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, 2022	41,914	\$ 727,835	\$ 19,642	\$ (488,916)	\$ 5,806	\$ 176,625	\$ 440,992
Net income and comprehensive income for the period	-	-	(200)	-	-	16,528	16,328
Share-based compensation (note 11)	-	-	-	-	225	-	225
Dividends (note 9)	-	-	-	-	-	(3,353)	(3,353)
Balance at March 31, 2023	41,914	\$ 727,835	\$ 19,442	\$ (488,916)	\$ 6,031	\$ 189,800	\$ 454,192
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	-	-	(2,967)	-	-	16,471	13,504
Shares issued in connection with business combinations (note 4)	155	7,500	-	-	-	-	7,500
Transaction costs, net of tax (note 4)	-	(63)	-	-	-	-	(63)
Share-based compensation (note 11)	-	-	-	-	323	-	323
Dividends (note 9)	-	-	-	-	-	(2,509)	(2,509)
Balance at March 31, 2022	41,824	\$ 727,373	\$ 1,932	\$ (488,916)	\$ 5,290	\$ 125,195	\$ 370,874

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, 2023 and 2022

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

	Note	March 31, 2023	March 31, 2022
Operating activities			
Net income for the period		\$ 16,528	\$ 16,471
Changes not involving cash:			
Depreciation and amortization		16,760	15,491
Amortization of capitalized financing costs	7	67	67
Share-based compensation	11	225	323
Deferred income tax recovery	13	(1,838)	(1,729)
(Gain) loss on disposal of property, plant and equipment		(123)	11
		<u>31,619</u>	<u>31,634</u>
Changes in non-cash operating working capital:			
Trade and other receivables		(2,923)	1,537
Inventories		(264)	(451)
Accounts payable and accrued liabilities		(724)	(1,433)
Income taxes payable		(1,339)	(87)
Net change in other operating working capital balances		(1,973)	(875)
Cash flows from operating activities		<u>24,396</u>	<u>29,325</u>
Financing activities			
Dividends	9	(3,353)	(2,509)
Principal repayments on lease liabilities	14	(7,171)	(7,012)
Net change in related party balances		36	(1,031)
Proceeds from revolving credit facility		-	12,000
Repayment of revolving credit facility		-	(5,000)
Transaction costs recorded in share capital		-	(63)
Cash flows used in financing activities		<u>(10,488)</u>	<u>(3,615)</u>
Investing activities			
Purchase of property, plant and equipment		(5,209)	(3,145)
Proceeds on disposal of property, plant and equipment		382	-
Purchase of intangible assets	6	(513)	(549)
Business combinations, net of cash acquired	4	-	(21,795)
Cash flows used in investing activities		<u>(5,340)</u>	<u>(25,489)</u>
Net increase in cash and cash equivalents		8,568	221
Effect of foreign currency translation on cash and cash equivalents		(27)	(157)
Cash and cash equivalents, beginning of period		<u>65,855</u>	<u>24,990</u>
Cash and cash equivalents, end of period		<u>\$ 74,396</u>	<u>\$ 25,054</u>

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, 2023 and 2022

(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 21.84 million multiple voting shares and 10,200 subordinate voting shares of AHG, representing approximately 52.1% of the issued and outstanding shares and 81.3% 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, 2022 and 2021.

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 3, 2023.

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 months ended March 31, 2023 and 2022

(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 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, 2022.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2023 and 2022

(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 March 31, 2023 and 2022 and for the three months then ended:

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at March 31, 2023 and for the three months then ended					
Revenue	\$ 132,933	\$ 46,033	\$ 1,785	\$ (15,977)	\$ 164,774
Segment income before tax	17,138	5,057	180	-	22,375
Interest income	(429)	99	929	-	599
Interest expense	(1,097)	(450)	(386)	-	(1,933)
Depreciation and amortization	(12,981)	(3,779)	-	-	(16,760)
Segment net income	12,647	3,768	113	-	16,528
Segment total assets	558,458	178,098	731,461	(749,856)	718,161
Additions of ROU assets	2,924	4	-	-	2,928
Capital expenditures	4,355	854	-	-	5,209
Segment total liabilities	227,892	87,681	30,745	(82,349)	263,969
As at March 31, 2022 and for the three months then ended					
Revenue	\$ 120,535	\$ 39,003	\$ 1,127	\$ (12,314)	\$ 148,351
Segment income before tax	18,436	4,264	(247)	-	22,453
Interest income	(775)	7	867	13	112
Interest expense	(875)	(520)	(146)	(13)	(1,554)
Depreciation and amortization	(12,259)	(3,232)	-	-	(15,491)
Segment net income	13,566	3,154	(249)	-	16,471
Segment total assets	518,289	170,413	752,262	(767,862)	671,102
Additions of ROU assets	3,879	-	-	-	3,879
Additions of property, plant and equipment through business combinations ¹	-	5,159	-	-	5,159
Capital expenditures	2,923	222	-	-	3,145
Segment total liabilities	262,420	96,869	41,294	(100,355)	300,228

¹ Includes \$nil for the period ended March 31, 2023 (2022 - \$3,798) of ROU assets acquired through business combinations

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2023 and 2022

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

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. 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 March 31, 2023 and 2022.

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.

For the period from acquisition on March 1, 2022 to March 31, 2022, LSU contributed revenue of \$2,181 and net income before amortization of intangible assets acquired of \$212 (\$79 net of intangible amortization) to the Company's financial results. If the Company had acquired LSU on January 1, 2022, management estimates that consolidated revenue would have been approximately \$153,700 and consolidated net income would have been approximately \$17,300. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same had the acquisition occurred on January 1, 2022.

During the three months ended March 31, 2022, transaction costs of \$259 were expensed in selling, general and administrative expenses in the consolidated statements of income and comprehensive income and \$63, net of deferred taxes, was charged to share capital in relation to the acquisition.

The following table summarizes the acquisition date fair value of identifiable net assets and goodwill acquired reported as of May 4, 2022, at which time the fair values for LSU were measured on a provisional basis:

Identifiable assets acquired and liabilities assumed	LSU (March 1, 2022)
Cash and cash equivalents	\$ (71)
Trade and other receivables	4,371
Inventories	615
Prepaid expenses and other	140
Property, plant and equipment, including ROU assets	5,159
Intangible assets	15,900
Accounts payable and accrued liabilities	(1,461)
Income taxes payable	(1,758)
Lease liabilities	(3,398)
Deferred tax liabilities	(2,496)
Total identifiable net assets	17,001
Goodwill	12,223
Provisional purchase consideration	\$ 29,224

Andlauer Healthcare Group Inc.
Notes to Consolidated Financial Statements
For the three months ended March 31, 2023 and 2022

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

4. Business combinations (continued)

The acquisition date fair value of certain provisional working capital balances for LSU was finalized during the three months ended June 30, 2022, resulting in final purchase consideration of \$26,747, a net reduction of \$2,477 to the provisional purchase consideration transferred. Final trade and other receivables comprised gross amounts due of \$4,636, all of which were expected to be collectible at the acquisition date.

The Company attributes value to the customer relationships maintained by LSU, and to its brand. For the three months ended March 31, 2022, the Company recorded intangible assets of \$12,700 in connection with customer relationships and \$3,200 in connection with the brand of LSU. The customer relationships and brand 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 with a strong reputation in healthcare logistics, and the synergies expected to be achieved from integrating LSU into the Company's existing business. Goodwill arising from the acquisition of LSU is allocated to the Healthcare Logistics segment.

Of the goodwill acquired through the business combination, \$4,850 is deductible for tax purposes.

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, 2022	\$ 161,746	\$ 9,186	\$ 23,695	\$ 188,122	\$ 382,749
Additions	407	132	69	7,529	8,137
Dispositions	-	-	-	(453)	(453)
Foreign currency adjustments	(5)	-	(1)	(24)	(30)
Balance at March 31, 2023	\$ 162,148	\$ 9,318	\$ 23,763	\$ 195,174	\$ 390,403
Accumulated depreciation					
Balance at December 31, 2022	\$ 84,046	\$ 7,178	\$ 13,800	\$ 101,845	\$ 206,869
Depreciation for the year	4,457	105	600	6,570	11,732
Dispositions	-	-	-	(194)	(194)
Foreign currency adjustments	(1)	-	-	(5)	(6)
Balance at March 31, 2023	\$ 88,502	\$ 7,283	\$ 14,400	\$ 108,216	\$ 218,401
Net carrying amounts					
At December 31, 2022	\$ 77,700	\$ 2,008	\$ 9,895	\$ 86,277	\$ 175,880
At March 31, 2023	\$ 73,646	\$ 2,035	\$ 9,363	\$ 86,958	\$ 172,002

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 months ended March 31, 2023 and 2022

(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, 2022	\$ 192,908	\$ 166,069	\$ 42,977	\$ 9,880	\$ 411,834
Additions	-	-	-	513	513
Foreign currency adjustments	(81)	(78)	(23)	-	(182)
Balance at March 31, 2023	\$ 192,827	\$ 165,991	\$ 42,954	\$ 10,393	\$ 412,165
Accumulated amortization					
Balance at December 31, 2022	\$ -	\$ 43,172	\$ 5,647	\$ 5,317	\$ 54,136
Amortization for the year	-	3,769	1,072	187	5,028
Foreign currency adjustments	-	(8)	(2)	-	(10)
Balance at March 31, 2023	\$ -	\$ 46,933	\$ 6,717	\$ 5,504	\$ 59,154
Net carrying amounts					
At December 31, 2022	\$ 192,908	\$ 122,897	\$ 37,330	\$ 4,563	\$ 357,698
At March 31, 2023	\$ 192,827	\$ 119,058	\$ 36,237	\$ 4,889	\$ 353,011

7. Credit facilities

	March 31, 2023	December 31, 2022
Revolving credit facility	\$ -	\$ -
Term facility	50,000	50,000
	50,000	50,000
Less: capitalized financing costs	(376)	(443)
Credit facilities	\$ 49,624	\$ 49,557

Recorded in the consolidated balance sheets as follows:

	March 31, 2023	December 31, 2022
Revolving credit facility	\$ -	\$ -
Term facility	49,624	49,557
Credit facilities	\$ 49,624	\$ 49,557

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2023 and 2022

(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, 2022 is as follows:

	Credit Facilities
Balance at December 31, 2022	\$ 49,557
Non-cash movements	
Amortization of capitalized financing costs	67
Balance at March 31, 2023	\$ 49,624

The Company is party to credit facilities with a syndicate of lenders. The 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 credit facilities 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.

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 March 31, 2023, the credit facilities comprise bankers' acceptances drawn at an interest rate of 6.4% (December 31, 2022 – 5.9%).

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 March 31, 2023 and December 31, 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 months ended March 31, 2023 was \$795 (March 31, 2022 – \$325).

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2023 and 2022

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

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, other than the credit facilities, 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, 2022	21,840	20,074	41,914	\$ 327,600	\$ 400,235	\$ 727,835
Balance at March 31, 2023	21,840	20,074	41,914	\$ 327,600	\$ 400,235	\$ 727,835

Dividends to subordinate voting and multiple voting shareholders

During the three months ended March 31, 2023, the Company declared total dividends of \$3,353, or \$0.08 per common share (March 31, 2022 – \$2,509, or \$0.06 per common share), on subordinate voting and multiple voting shares. These amounts were included in accounts payable and accrued liabilities as at March 31, 2023 and 2022 respectively, and were paid on April 17, 2023 and April 19, 2022 respectively, to common shareholders of record on March 31, 2023 and 2022 respectively.

Andlauer Healthcare Group Inc.
Notes to Consolidated Financial Statements
For the three months ended March 31, 2023 and 2022

(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 March 31, 2023	Three Months Ended March 31, 2022
Net income	\$ 16,528	\$ 16,471
Weighted average number of common shares	41,914	41,722
Earnings per share – basic	\$ 0.39	\$ 0.39

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 March 31, 2023	Three Months Ended March 31, 2022
Net income	\$ 16,528	\$ 16,471
Weighted average number of common shares	41,914	41,722
Dilutive effects:		
Stock options	728	818
Deferred share units	51	37
Weighted average number of diluted common shares	42,693	42,577
Earnings per share – diluted	\$ 0.39	\$ 0.39

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. There were no options exercised during the three-month periods ended March 31, 2023 and March 31, 2022. Of the options outstanding at March 31, 2023, a total of 635 thousand (December 31, 2022 - 635 thousand) are held by non-executive directors; 200 thousand (December 31, 2022 – 200 thousand) are held by executive officers; with the remaining 239 thousand (December 31, 2022 – 239 thousand) held by management personnel.

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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)	March 31, 2023		March 31, 2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	1,074	\$ 15.00	1,202	\$ 15.00
Ending balance	1,074	\$ 15.00	1,202	\$ 15.00
Options exercisable	780	\$ 15.00	615	\$ 15.00

The Company recognized compensation expense of \$70 for the three months ended March 31, 2023 (March 31, 2022 – \$168), 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 their 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, 2023, the Company recognized a compensation expense of \$155, with corresponding increases to contributed surplus (March 31, 2022 – \$155).

The table below summarizes the changes in the outstanding DSUs:

(thousands of DSUs)	March 31, 2023	March 31, 2022
Opening balance	51	37
Granted	3	3
Closing balance	54	40

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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.

	March 31, 2023	March 31, 2022
Major products/service lines		
Logistics and distribution	\$ 40,523	\$ 33,245
Packaging solutions	5,510	5,758
Healthcare Logistics segment	46,033	39,003
Ground transportation	108,260	97,494
Air freight forwarding	7,542	7,596
Dedicated and last mile delivery	17,131	15,445
Intersegment revenue	(14,192)	(11,187)
Specialized Transportation segment	118,741	109,348
Total revenue	\$ 164,774	\$ 148,351
Primary geographical markets		
Canada	\$ 131,046	\$ 118,037
United States	33,728	30,314
Total revenue	\$ 164,774	\$ 148,351

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13. Income taxes

a) Amounts recognized in income or loss

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Current income tax expense:		
Current taxes on income for the reporting year	\$ 7,685	\$ 7,711
Deferred income tax recovery:		
Recognition of tax benefits related to loss for the period	(170)	(216)
Origination and reversal of temporary differences	(1,668)	(1,513)
	(1,838)	(1,729)
Income tax expense reported to the statements of income and comprehensive income	\$ 5,847	\$ 5,982

Total cash outflow for actual taxes paid for the period ended March 31, 2023 was \$8,908 (March 31, 2022 – \$4,773).

b) Amounts recognized directly in equity

	March 31, 2023	March 31, 2022
Transaction costs, before tax	\$ -	\$ 86
Tax	-	(23)
Transaction costs, net of tax	\$ -	\$ 63

c) Reconciliation of effective tax rate

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Income before income taxes	\$ 22,375	\$ 22,453
Consolidated Canadian federal and provincial income tax rate	26.5%	26.5%
Income tax expense based on statutory rate	5,929	5,950
Increase (decrease) in income taxes resulting from non-deductible (non-taxable) items or other adjustments	(82)	32
Total income tax expense	\$ 5,847	\$ 5,982

d) Deferred taxes

	March 31, 2023	December 31, 2022
Deferred tax assets	\$ 6,384	\$ 5,809
Deferred tax liabilities	(47,318)	(48,609)
Net deferred tax liability	\$ (40,934)	\$ (42,800)

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13. Income taxes (continued)

e) **Movement in deferred tax balances**

	March 31, 2023	Recognized in income or loss	Foreign currency adjustments	December 31, 2022
Plant and equipment	\$ (13,233)	\$ 654	\$ 6	\$ (13,803)
Accounts payable and accrued liabilities	859	40	-	819
Intangibles	(37,803)	1,244	-	(39,047)
Benefit of losses carried forward	2,976	170	23	2,783
Leases	4,292	98	-	4,194
Transaction costs	1,975	(278)	(1)	2,254
Net deferred tax (liability) asset	\$ (40,934)	\$ 1,838	\$ (28)	\$ (42,800)

	December 31, 2022	Recognized in income or loss	Acquired in business combina- tions	Foreign currency adjustments	March 31, 2022
Plant and equipment	\$ (13,803)	(1,522)	1,174	(589)	\$ (12,866)
Accounts payable and accrued liabilities	819	166	-	5	648
Intangibles	(39,047)	2,566	1,982	(2,109)	(41,486)
Benefit of losses carried forward	2,783	413	-	-	2,370
Leases	4,194	(526)	(840)	104	5,456
Transaction costs	2,254	(781)	-	-	3,035
Net deferred tax asset (liability)	\$ (42,800)	\$ 316	\$ 2,316	\$ (2,589)	\$ (42,843)

	March 31, 2022	Recognized in equity	Recognized in income or loss	Acquired in business combina- tions	Foreign currency adjustments	December 31, 2021
Plant and equipment	\$ (12,866)	\$ -	\$ 725	\$ (1,290)	\$ 91	\$ (12,392)
Accounts payable and accrued liabilities	648	-	41	-	-	607
Intangibles	(41,486)	-	1,176	(2,107)	431	(40,986)
Benefit of losses carried forward	2,370	-	216	-	-	2,154
Leases	5,456	-	(170)	901	(23)	4,748
Transaction costs	3,035	23	(259)	-	-	3,271
Net deferred tax (liability) asset	\$ (42,843)	\$ 23	\$ 1,729	\$ (2,496)	\$ 499	\$ (42,598)

f) **Unrecognized deferred tax liabilities**

As at March 31, 2023, temporary differences of \$40,390 (December 31, 2022 – \$40,390) exist in connection with wholly-owned investments in subsidiaries; and the related potential deferred tax liability of \$5,352 (December 31, 2022 – \$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.

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13. Income taxes (continued)

g) Non-capital loss carryforwards

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

The Company has total non-capital tax loss carry forwards of \$11,139 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.

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 three months ended March 31, 2023 is 5.44% (year ended December 31, 2022 – 5.20%). 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 three months ended March 31, 2023 is 5.45% for Specialized Transportation and 5.80% for Healthcare Logistics (year ended December 31, 2022 – 4.87% for Specialized Transportation; 5.49% for Healthcare Logistics).

Right-of-use assets – Facilities	As at and for the three months ended March 31, 2023	As at and for the year ended December 31, 2022
Opening balance	\$ 77,701	\$ 89,343
Add: additions	407	2,744
Add: additions through business combinations	-	2,756
Less: depreciation	(4,476)	(17,487)
Foreign currency adjustments	72	345
Ending balance	\$ 73,704	\$ 77,701

Right-of-use assets – Logistics and transportation equipment	As at and for the three months ended March 31, 2023	As at and for the year ended December 31, 2022
Opening balance	\$ 32,333	\$ 33,443
Add: additions	2,521	9,294
Add: additions through business combinations	-	1,042
Less: depreciation	(2,834)	(11,519)
Foreign currency adjustments	39	73
Ending balance	\$ 32,059	\$ 32,333

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14. Leases (continued)

Net carrying amounts of right-of-use assets included in property, plant and equipment	March 31, 2023	December 31, 2022
Facilities	\$ 73,704	\$ 77,701
Logistics and transportation equipment	32,059	32,333
Balance	\$ 105,763	\$ 110,034

Lease liabilities – Facilities	As at and for the three months ended March 31, 2023	As at and for the year ended December 31, 2022
Opening balance	\$ 86,925	\$ 98,681
Add: additions	407	2,744
Add: additions through business combinations	-	2,006
Add: interest expense	819	3,623
Less: principal repayments	(4,459)	(16,857)
Less: interest payments	(819)	(3,623)
Foreign currency adjustments	(4)	351
Ending balance	\$ 82,869	\$ 86,925

Lease liabilities – Logistics and transportation equipment	As at and for the three months ended March 31, 2023	As at and for the year ended December 31, 2022
Opening balance	\$ 26,804	\$ 28,282
Add: additions	2,521	9,294
Add: additions through business combinations	-	1,392
Add: interest expense	319	1,165
Less: principal repayments	(2,712)	(12,177)
Less: interest payments	(319)	(1,165)
Foreign currency adjustments	-	13
Ending balance	\$ 26,613	\$ 26,804

Cash lease principal payments	Three months ended March 31, 2023	Year ended December 31, 2022
Repayments of lease principal	\$ (7,171)	\$ (29,034)
Total lease payments	\$ (7,171)	\$ (29,034)

Lease liabilities	March 31, 2023	December 31, 2022
Facilities	\$ (82,869)	\$ (86,925)
Logistics and transportation equipment	(26,613)	(26,804)
Balance	\$ (109,482)	\$ (113,729)

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14. Leases (continued)

Lease liabilities included in consolidated balance sheets	March 31, 2023	December 31, 2022
Current	\$ (26,159)	\$ (26,547)
Non-current	(83,323)	(87,182)
Balance	\$ (109,482)	\$ (113,729)

Maturity analysis for lease liabilities – contractual undiscounted cash flows	March 31, 2023	December 31, 2022
Less than one year	\$ 26,492	\$ 30,523
One to 5 years	79,279	81,317
More than 5 years	10,578	12,886
Total undiscounted lease liabilities	\$ 116,349	\$ 124,726

Amounts recognized in the consolidated statements of income and comprehensive income in connection with interest expense for lease liabilities for three months ended March 31, 2023 was \$1,138 (March 31, 2022 – \$1,229). Total cash outflow for leases for the three months ended March 31, 2023 was \$8,309 (March 31, 2022 – \$8,241).

Net investment lease	As at and for the three months ended March 31, 2023	As at and for year ended December 31, 2022
Opening balance	\$ 61	\$ 784
Add: interest received	-	11
Less: payments received	(61)	(723)
Less: interest income	-	(11)
Ending balance	\$ -	\$ 61

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 the net book value of the right-of-use asset and established a net investment lease at that time. As at March 31, 2023 the lease has been fully paid and terminated. The Company recognized less than \$1 of interest income for the period ended March 31, 2023 (March 31, 2022 – \$5).

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15. Interest expense

Interest expense recognized in income and comprehensive income	March 31, 2023	March 31, 2022
Leases	\$ 1,138	\$ 1,229
Credit facilities	795	325
Total interest expense	\$ 1,933	\$ 1,554

Interest expense recognized in the consolidated statements of income and comprehensive income equates to total interest paid for the periods ended March 31, 2023 and 2022.

16. Commitments and contingencies

- a) 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.
- b) As at March 31, 2023, the Company had outstanding letters of guarantee in the amount of \$365 (December 31, 2022 – \$365).
- c) The Company has made commitments to lease fleet equipment, with the terms to begin upon delivery of the equipment. Commitments range from 72 to 84 months and total \$10,524 (December 31, 2022 – \$11,371).
- d) The Company has made commitments to purchase fleet equipment totalling approximately \$14,301 (December 31, 2022 – \$10,126).

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.

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17. Related parties (continued)

	March 31, 2023	March 31, 2022
Revenue		
Transportation services		
1708998 Ontario Limited (Medical Courier Services)	\$ 56	\$ 45
Shared service recovery		
Andlauer Properties and Leasing Inc.	5	5
Andlauer Management Group Inc.	4	3
9143-5271 Quebec Inc.	8	8
1708998 Ontario Limited (Medical Courier Services)	6	3
Expenses		
Transportation services		
1708998 Ontario Limited (Medical Courier Services)	44	28
Med Express Ltd.	10	6
Contract labour services		
Ready Staffing Solutions Inc.	1,693	1,463
Equipment rent		
Andlauer Properties and Leasing Inc.	500	588
Facility rent		
Andlauer Properties and Leasing Inc.	588	491
9143-5271 Quebec Inc.	383	383
Maintenance services		
D.C. Racking and Maintenance Inc. and Logiserv Inc.	-	6
Travel services		
C-GHBS Inc.	-	72

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17. Related parties (continued)

	March 31, 2023	December 31, 2022
Trade receivables due from related parties		
Andlauer Properties and Leasing Inc.	\$ 13	\$ 15
1708998 Ontario Limited (Medical Courier Services)	21	32
	34	47
Due from related parties		
Andlauer Management Group Inc.	57	56
Total due from related parties	\$ 91	\$ 103
Trade payables due to related parties		
Ready Staffing Solutions Inc.	\$ 286	\$ 463
1708998 Ontario Limited (Medical Courier Services)	-	18
Andlauer Properties and Leasing Inc.	105	73
Andlauer Management Group Inc.	4	9
C-GHBS Inc.	-	12
Logiserv Inc.	-	12
	395	587
Due to related parties		
Andlauer Properties and Leasing Inc.	384	342
Total due to related parties	\$ 779	\$ 929

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:

	March 31, 2023	March 31, 2022
Key management compensation		
Salaries and benefits	\$ 1,015	\$ 870
Share-based payment arrangements	44	106
Director deferred share units	155	155
Total key management compensation	\$ 1,214	\$ 1,131

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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.

	March 31, 2023	December 31, 2022
Total lease liabilities	\$ 109,482	\$ 113,729
Term facility	49,624	49,557
Less: cash and cash equivalents	(74,396)	(65,855)
Net debt	84,710	97,431
Last twelve months' net income	76,332	76,275
Last twelve months' interest income	(1,086)	(599)
Last twelve months' interest expense	7,237	6,858
Last twelve months' income tax expense	27,348	27,483
Last twelve months' depreciation and amortization	65,721	64,452
EBITDA	175,552	174,469
Net leverage ratio	0.48	0.56