

Q2 2023 REPORT

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ANDLAUER HEALTHCARE GROUP INC.

**Management's Discussion and Analysis
of Financial Condition and Results of Operations
for the three and six-month periods ended June 30, 2023 and 2022**

August 1, 2023

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management's discussion and analysis of financial condition and results of operations ("MD&A") for the three and six-month periods ended June 30, 2023 and 2022 should be read in conjunction with Andlauer Healthcare Group Inc.'s unaudited interim condensed consolidated financial statements for the three and six-month periods ended June 30, 2023 and 2022, along with the related notes thereto and the audited annual consolidated financial statements, related notes thereto and MD&A for the years ended December 31, 2022 and 2021. This MD&A is presented as of August 1, 2023 and is current to that date unless otherwise stated.

All references in this MD&A to the "Company", "AHG", "us", "our" or "we" refer to Andlauer Healthcare Group Inc., together with our direct and indirect subsidiaries, on a consolidated basis, which is referred to as "the Company" in our financial statements. Additionally, all references to "Q2 2023" are to the three months ended June 30, 2023; "Q2 2022" are to the three months ended June 30, 2022; "Q1 2023" are to the three months ended March 31, 2023; "Q1 2022" are to the three months ended March 31, 2022; "Q4 2022" are to the three months ended December 31, 2022; "Q4 2021" are to the three months ended December 31, 2021; "Q3 2022" are to the three months ended September 30, 2022; "Q3 2021" are to the three months ended September 30, 2021; "YTD 2023" are to the six months ended June 30, 2023; "YTD 2022" are to the six months ended June 30, 2022; "YTD 2021" are to the six months ended June 30, 2021; "Fiscal 2024" are to the year ending December 31, 2024; "Fiscal 2023" are to the year ending December 31, 2023; "Fiscal 2022" are to the year ended December 31, 2022; and "Fiscal 2021" are to the year ended December 31, 2021.

Cautionary Note Regarding Forward-Looking Information

This MD&A contains forward-looking information and forward-looking statements (collectively, "forward-looking information") within the meaning of applicable securities laws. Forward-looking information may relate to our future financial outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, addressable markets, budgets, operations, financial results, taxes, dividend policy, plans, objectives, and expectations with respect to the coronavirus disease ("COVID-19"). Particularly, information regarding our expectations of future results, performance, achievements, facility expansions, leases, platform expansions, acquisitions, public company costs, payment of dividends, prospects, financial targets or outlook, intentions, opportunities, and the markets in which we operate is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "outlook", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", "commencing" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", "will", "will be taken", "occur" or "be achieved". In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events or circumstances.

Such forward-looking statements are qualified in their entirety by the inherent risks, uncertainties and changes in circumstances surrounding future expectations which are difficult to predict and many of which are beyond the control of the Company.

This forward-looking information and other forward-looking information is based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct.

Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that, while considered by the Company to be appropriate and reasonable as of the date of this MD&A, are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to:

- the impact of inflation and rising interest rates together with the threats of stagflation or recession;
- the uncertainties in the global economy created by the war in Ukraine;
- the impact of variation in the value of the Canadian dollar in relation to the U.S. dollar;
- the impact of changing conditions in the healthcare logistics and transportation services market;
- risks and liabilities associated with the transportation of dangerous goods;
- our ability to comply with U.S. foreign ownership, control or influence mitigation measures;
- our ability to execute our growth strategies;
- increasing competition in the healthcare logistics and transportation services market in which we operate;
- volatility in financial markets;
- changes in the attitudes, financial condition and demand of our target market;
- developments and changes in applicable laws and regulations;
- our ability to source and complete acquisitions;
- our ability to successfully integrate businesses and assets that we acquire and realize synergies;
- our ability to retain and grow revenue with existing clients and develop new clientele;
- our ability to retain members of our management team and key personnel;
- increases in driver compensation and the ability to attract and retain employees;
- the availability of equipment and drivers in the markets in which we operate;
- our ability to expand into additional markets; and
- such other factors discussed in greater detail under “Risk Factors” in this MD&A and in our Annual Information Form dated March 2, 2023 for Fiscal 2022 (the “AIF”) which is available on our profile on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at www.sedarplus.ca.

If any of these risks or uncertainties materialize, or if the opinions, estimates or assumptions underlying the forward-looking information prove incorrect, actual results or future events might vary materially from those anticipated in the forward-looking information. The opinions, estimates or assumptions referred to above and described in greater detail in “Risk Factors” should be considered carefully by prospective investors.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. Forward-looking information is provided for the purpose of presenting information about management’s current expectations and plans relating to the future and allowing investors and others to get a better understanding of our anticipated financial position, results of operations and operating environment. Readers are cautioned that such information may not be appropriate for other purposes.

Although we have attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other risk factors not presently known to us or that we presently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, investors should not place undue reliance on forward-looking information, which speaks only as of the date made. The forward-looking information contained in this MD&A represents our expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made), and are subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

All of the forward-looking information contained in this MD&A is expressly qualified by the foregoing cautionary statements.

Basis of Presentation

Our unaudited interim condensed consolidated financial statements as at and for the three and six-month periods ended June 30, 2023 and 2022 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, our unaudited interim condensed consolidated financial statements and accompanying notes should be read in conjunction with the notes to our audited annual consolidated financial statements for the years ended December 31, 2022 and 2021.

Our unaudited interim condensed consolidated financial statements have been prepared using consistent accounting policies and methods used in the preparation of our audited annual consolidated financial statements.

Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management’s perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including “EBITDA” and “EBITDA Margin”. These non-IFRS measures are used to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation.

For a description of how we define these non-IFRS Measures and an explanation of why the non-IFRS measures provide useful information to investors, please see “How We Assess the Performance of Our Business – Non-IFRS Measures” below.

For quantitative reconciliations of net income to EBITDA for Q2 2023 and Q2 2022, please see “Reconciliation of Non-IFRS Measures” below.

Overview

AHG was incorporated under the *Business Corporations Act* (Ontario) on November 12, 2019 with its head office located at 100 Vaughan Valley Blvd, Woodbridge, ON, L4H 3C5. The Company's subordinate voting shares ("Subordinate Voting Shares") are listed on the Toronto Stock Exchange (the "TSX") under the stock symbol "AND".

We are a leading and growing supply chain management company with a platform of customized third-party logistics ("3PL") and specialized transportation solutions for the healthcare sector. We offer services to healthcare manufacturers, wholesalers, distributors and 3PL providers, among others, through a comprehensive platform of high quality, technology-enabled supply chain solutions for a range of products, including: pharmaceuticals, vaccines, biologics, blood products, narcotics, precursors, active pharmaceutical ingredients, over-the-counter, natural health, animal health, consumer health, cosmetics, health and beauty aids, and medical devices. We integrate our uniquely designed Canada-wide network of facilities, vehicles, personnel and technology systems into our clients' businesses to offer holistic solutions that span all of our clients' shipping needs and satisfy the requirements of the highly regulated Canadian healthcare sector. During Fiscal 2021, we expanded our specialized transportation capabilities, through acquisitions, into truckload services for the healthcare sector in the United States.

We differentiate our service offerings and deliver value to our clients through our competitive strengths in temperature management, quality assurance and regulatory compliance, technology-enabled visibility throughout the supply chain and security. We are committed to developing and expanding long-term strategic relationships with our clients to provide improved operational efficiencies and access to value-added services. We generate revenue across five principal product lines: logistics and distribution, packaging solutions, air freight forwarding, ground transportation, and dedicated and last mile delivery.

We believe that we are Canada's only national third-party service provider focused exclusively on delivering customized, end-to-end logistics and specialized transportation solutions to the healthcare sector. Our 3PL services are provided under our Accuristix and LSU brands, through which we provide customized logistics, distribution and packaging solutions to various healthcare manufacturers. Our specialized transportation solutions are offered under our ATS Healthcare, ATS Dedicated and Skelton brands in Canada, where we provide a one-stop shop for our clients' healthcare transportation needs through our specialized air freight forwarding, ground transportation, dedicated delivery and last mile services. We believe we are a national leader in the Canadian healthcare logistics and specialized transportation markets we serve.

We also provide specialized transportation services domestically in the United States under our Boyle Transportation and Skelton USA brands (each as defined below). Boyle Transportation provides specialized transportation services to clients in the life sciences (approximately 75-80% of revenue) and government/defense sectors (approximately 20-25% of revenue). Boyle Transportation adheres to stringent quality and security standards, employs highly trained and dedicated professionals, continually invests in advanced technology and equipment, and has an expansive reach across the United States. Skelton USA was launched in 2017 and has been growing by successfully leveraging its Canadian reputation and brand for expertise in cold chain services. Skelton USA currently serves customers across the United States.

In our healthcare logistics segment, we serve as an extension of our manufacturing clients, leveraging our infrastructure and expertise to manage their supply chain activities, allowing them to focus on other strategic priorities such as sales, marketing, research and development. We focus on serving our logistics clients as comprehensively as possible and incorporate multiple services from all of our related product lines into our customized logistics solutions.

In our specialized transportation segment, we leverage our national infrastructure in Canada to offer coast-to-coast delivery, including specialized facilities, multiple modes of transportation and flexible capacity to accommodate the full range of our clients' logistics and/or transportation needs on an integrated and efficient basis. By combining multiple service offerings, we can effectively provide managed and monitored movement of our clients' temperature sensitive and valuable products through a closed-loop nation-wide system.

Our competitive strengths in temperature management, quality assurance and regulatory compliance, visibility throughout the supply chain and security are deployed across our Canada-wide network of 31 secure, temperature-controlled facilities, the six third-party owned cross-docks that we operate from and by our team of highly-trained employees. Our security, information and monitoring systems, as well as our temperature management expertise, allow us to meet and exceed Health Canada guidelines and regulations, ensuring the integrity and quality of our clients' temperature sensitive healthcare goods and data.

We also have four facilities in the United States.

Additional information about AHG, including our AIF, can be found on our profile on SEDAR at www.sedarplus.ca or on our website at www.andlauerhealthcare.com.

Summary of Factors Affecting Performance

We believe that our performance and future success depend on a number of factors that present significant opportunities for us. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below and in the "Risk Factors" section of this MD&A and in our AIF.

Service Offering

We believe that offering a platform of services designed specifically for the healthcare sector puts us in a unique position as a provider of supply chain solutions. Our competitive strengths in temperature management, quality assurance and regulatory compliance, visibility throughout the supply chain and security allow us to provide healthcare clients with specialized, integrated, end-to-end supply chain solutions. Through our five principal, complementary service offerings: logistics and distribution, packaging solutions, air freight forwarding, ground transportation, and dedicated and last mile delivery, we accommodate our clients' specialized supply chain needs on an integrated and efficient basis.

Relationships with Manufacturers and Distributors

We believe that our market position is strengthened by the desire of our clients to increasingly outsource their supply-chain management to specialized service providers with the healthcare quality systems, operational expertise and experience to efficiently optimize their product distribution. We are committed to developing and expanding long-term strategic relationships with our clients to provide improved operational efficiencies and access to value-added services. From manufacturers to distributors to retail locations to front doors across Canada and the United States, we store, transport and monitor and manage the temperature conditions of a range of healthcare products. Our trained personnel comply with healthcare industry regulations and best practices.

New Development Projects

We secure client contract wins as a foundation for growth and then add incremental warehousing and distribution square footage through capital efficient leases. Given the required lead-time to build and license facilities, as we secure new major client contracts, we typically strategically invest in excess capacity in anticipation of growing client needs, as well as new client opportunities, which enables capital efficient growth.

Demographics and Healthcare Spending

We believe that we are strategically positioned to directly benefit from the strong growth expected in the North American healthcare sector, which is driven by a number of favourable trends including an aging population, increased life expectancy, increasing healthcare spending, and an increasing number of healthcare products requiring unique logistics needs. Vaccines and biologics, for example, are generally temperature sensitive and require varying degrees of temperature conditions for transportation and storage.

Regulatory Environment

In order to maintain the safety, quality and efficacy of healthcare products, government regulations set out rules relating to, among other things, the packaging, warehousing, distribution, transportation and temperature monitoring of such products. The pace of introduction and complexity of such regulations has increased in recent years, including through the introduction of, and revisions to, many Health Canada guidelines, such as Health Canada's GUI-0069 - Guidelines for Environmental Control of Drugs During Storage and Transportation ("GUI-0069"), among others. Recognizing the ever-changing regulatory demands on the healthcare sector, we take a proactive approach to stay aligned with regulatory protocols, provide environments that are compliant with Good Manufacturing Practices and offer our clients' real-time monitoring and reporting. By outsourcing their logistics and transportation needs to AHG and our specialized services platform, our clients can focus on their core business.

While we believe the United States does not have as rigorous standards as Canada or Europe regarding the transportation of healthcare products, healthcare manufacturers are demanding high quality temperature control and monitoring as well as security and visibility for their truckload shipments in the United States, which aligns with our specialized transportation solutions. Both Boyle Transportation and Skelton USA comply with United States Pharmacopeia (USP) chapter <1079> Good Storage & Distribution Practices for Drug Products, to the extent applicable for transportation.

Boyle Transportation complies with U.S. Federal Motor Carrier Safety Administration regulations regarding the transportation of hazardous materials. Additionally, the National Industrial Security Program Operating Manual requires that Boyle Transportation be effectively insulated from any Foreign Ownership, Control, or Influence to perform on certain U.S. Department of Defense contracts and operates, under AHG's ownership, pursuant to a pending Special Security Agreement with the U.S. Defense Counterintelligence and Surveillance Agency.

Competition

We believe that we offer a unique set of services in the marketplace and stand apart from other outsourced healthcare service providers and traditional logistics and transportation companies. In particular, we believe our differentiated capabilities, including our temperature management expertise, together with our coast-to-coast distribution network in Canada and multiple service offerings, uniquely positions us within our industry and sets us apart from companies specializing in global integration and supply chain management, national non-temperature managed solutions, regional temperature managed solutions as well as niche service providers and insourced transportation services. Notwithstanding the foregoing, we do compete with

UPS Supply Chain Solutions, Kuehne + Nagel and Lynden Logistics in our delivery of 3PL services, and with UPS, FedEx, Purolator, and several regional players in the specialized transportation space in Canada.

In the United States, Boyle Transportation and Skelton USA compete with a large number of regional carriers as well as national transportation providers, such as FedEx.

Acquisitions

We selectively evaluate strategically compelling acquisition opportunities that leverage or expand our differentiated capabilities. In pursuing potential acquisition opportunities, we assess several criteria to expand our domestic platform, including: (i) complementary tuck-ins; and (ii) entry or expansion into growth verticals, new verticals and new service offerings. We will continue to assess opportunities for expansion in the U.S. or into international markets through existing platforms that align with our core capabilities and existing service offerings.

On October 5, 2020, we completed two tuck-in acquisitions: TDS Logistics Ltd. (“TDS”), now branded as “ATS Dedicated”, and McAllister Courier Inc. (“MCI”), our first acquisitions as a public company. These two regionally focused temperature-controlled transportation businesses increased the reach of our services and expanded our market presence in Ontario.

On March 1, 2021, we acquired 100% of Skelton Canada Inc. (“Skelton”) and 49% of Skelton USA Inc. (“Skelton USA” and together with Skelton, the “Skelton Companies”) which enhanced our platform with expanded national 2-8°C specialized temperature-controlled capabilities and provided us with a strategic entry into the U.S. market.

On November 1, 2021, we acquired 100% of T.F. Boyle Transportation, Inc. (“Boyle Transportation”), which provides specialized transportation services to clients in the life sciences and government/defense sectors, and the remaining 51% of Skelton USA, increasing our aggregate ownership of Skelton USA to 100%.

On March 1, 2022, we acquired 100% of Logistics Support Unit (LSU) Inc. (“LSU”). LSU is a 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.

Management & Employees

Our employee culture is one of our fundamental strengths and a strategic priority. Our employees are passionate about our business and are dedicated to creating and improving solutions for our clients. We empower our employees through training and professional development programs and maintain open lines of communication that encourage our employees to suggest ways in which we can improve our operations. We recognize and celebrate employees who act as leaders within our team and promote movement within our organization in an effort to retain and encourage our top talent. As a result of this collaborative employee culture, we have fostered strong relationships with our employees across our operating segments, none of which are subject to collective bargaining agreements.

Cost Management

In order to provide the services that we offer, we incur various operating costs. These costs include amongst others, labour, rent, fuel, equipment, and insurance. We are susceptible to increases in the price of these items, many of which can fluctuate, often due to factors beyond our control, such as regional and global supply and demand dynamics, political events, global pandemics, terrorist activities, the strength of the Canadian dollar relative to other currencies, and natural disasters.

To mitigate the risk of cost escalation, we focus on operational excellence, synergies between our product lines and cost controls. We rely on, among other things, long-term planning, budgeting processes, and internal benchmarking to achieve our profitability targets. Additionally, we mitigate the risk of inflation by utilizing leases to finance our network of facilities, many of our vehicles and our logistics equipment, as well as by using third-party service providers. We also mitigate our exposure to rising fuel costs through the implementation of fuel surcharge programs, which pass the majority of cost increases to our clients. In addition, we have implemented a number of policies that focus on asset efficiency, including fuel economy, asset utilization, proper repairs and maintenance of equipment, and measured equipment lease renewals. Many of our contracts include cost escalation indexes that provide for annual price adjustments which further protect us from escalating costs.

Financial and Operational Highlights

We refer the reader to the section entitled “How We Assess the Performance of Our Business” of this MD&A for the definition of the items discussed below and, when applicable, to the section entitled “Reconciliation of Non-IFRS Measures” for quantitative reconciliations of net income to EBITDA.

Q2 2023 Compared to Q2 2022

Select highlights include the following:

- Revenue was \$157.4 million, compared to \$169.4 million in Q2 2022;
- Operating income was \$22.6 million, compared to \$30.2 million in Q2 2022;
- Net income was \$15.7 million in Q2 2023, compared to \$21.0 million in Q2 2022;
- Total comprehensive income for Q2 2023 was \$10.7 million compared to \$27.6 million in Q2 2022;
- EBITDA was \$39.5 million compared to \$46.3 million in Q2 2022; and
- EBITDA Margin was 25.1% in Q2 2023, compared to 27.3% in Q2 2022.

YTD 2023 Compared to YTD 2022

Select highlights include the following:

- Revenue was \$322.1 million, compared to \$317.8 million in YTD 2022;
- Operating income was \$46.3 million, compared to \$54.3 million in YTD 2022;
- Net income was \$32.2 million, compared to \$37.5 million in YTD 2022;
- Total comprehensive income was \$27.0 million, compared with \$41.1 million in YTD 2022;
- EBITDA was \$80.0 million, compared to \$85.7 million in YTD 2022; and
- EBITDA Margin was 24.8% in YTD 2023, compared to 27.0% in YTD 2022.

How We Assess the Performance of Our Business

We have historically operated and managed our healthcare logistics and specialized transportation segments as separate businesses with separate management teams. Our healthcare logistics segment operates under the brand names Accuristix and LSU; and our specialized transportation segment operates under the brand names ATS Healthcare, ATS Dedicated, Boyle Transportation and Skelton Truck Lines. Following our initial public offering (“IPO”) completed December 11, 2019, both Accuristix and ATS Healthcare have continued to operate autonomously, each having its own management. Skelton, which we acquired on March 1, 2021, and Boyle Transportation and Skelton USA, which we acquired on November 1, 2021, which are reported in the specialized transportation segment, also operate autonomously, as they did prior to their respective acquisitions. Similarly, LSU, which we acquired on March 1, 2022, operates autonomously and is included in our healthcare logistics segment. Over time, as we grow, our operating segments may change. If this occurs, we will reflect the change in our reporting practices.

Except for tractors and trailers purchased by Skelton and Boyle Transportation, our operating segments conduct their businesses in a manner that limits capital investments. We prefer to lease facilities and certain equipment rather than allocating significant cash flows to capital expenditures. We believe our business model provides us with greater flexibility, cost savings and lower risks, as compared to more capital expenditure intensive models. Accordingly, lease costs comprise a significant component of our expenses. Under IFRS 16 – Leases, leases have been capitalized, resulting in the costs associated with our leases being recorded as depreciation and interest expense. We believe that the cash flows associated with our lease payments are a relevant metric in evaluating the performance of our business.

Revenue

We generate revenue from the provision of supply chain solutions to the Canadian and United States healthcare sectors. Across our healthcare logistics and specialized transportation operating segments, we generate revenue across five principal product lines: logistics and distribution, packaging solutions, air freight forwarding, ground transportation, and dedicated and last mile delivery.

Our healthcare logistics segment, which offers services under our Accuristix and LSU brands, generates revenue from the provision of logistics and distribution services and packaging solutions to our clients. Services are typically provided under master service agreements with terms that range from three to five years in length. Our logistics contracts typically include a single performance obligation that is satisfied over time as clients simultaneously receive and consume the benefits of our services. For this performance obligation, we recognize revenue at the invoiced amount since this amount corresponds directly to our performance and the value to the client. In some cases, our agreements include other performance obligations related to managing transportation and other client services which are included in the logistics and distribution product. These services are typically priced at their stand-alone selling prices and are recognized over time as the client simultaneously receives and consumes the benefits of our services. Intersegment revenue generated by Credo Systems Canada Inc. from the sale of thermal packaging containers to ATS Healthcare, as well as intra-segment revenue between Accuristix and Nova Pack Ltd. (“Nova Pack”) is eliminated on consolidation.

Our specialized transportation segment, which offers services under our ATS Healthcare, ATS Dedicated, Boyle Transportation and Skelton Truck Lines brands, generates revenue from the provision of specialized temperature-controlled, as well as non-temperature controlled, ground transportation, air freight forwarding and dedicated and last mile transportation services to our clients. Certain additional services are provided to clients as requested as part of their transportation contracts, such as chain of custody and other incidental services. Transportation revenue is recognized proportionally as a shipment moves from origin to destination and the related costs are recognized as incurred. Performance obligations are short-term, with transit

typically taking less than one week. Generally, clients are billed upon shipment of the freight, and remit payment according to approved payment terms. Intersegment revenue generated by ATS Healthcare and Skelton from the provision of transportation services to Accuristix and LSU, on behalf of their logistics clients, is eliminated on consolidation.

As is customary in our industry, most of our client contracts and transportation pricing terms include fuel-surcharge revenue programs or cost recovery mechanisms to mitigate the effect of fuel price increases over base amounts established in the contract. However, these fuel surcharge mechanisms may not capture the entire amount of changes in fuel prices, and there is also a lag between the payment for fuel and collection of surcharge revenue. Increases or decreases in fuel prices increase or reduce the cost of transportation and services, and will accordingly increase or reduce our revenues and may reduce or increase margins for certain product lines.

Cost of Transportation and Services

Our cost of transportation and services expense includes the cost of providing or procuring freight transportation to our clients. The cost of transportation and services for our specialized transportation segment includes: linehaul costs to connect our national network; pick-up and delivery costs paid to brokers, agents, and our drivers; fuel, toll fees and maintenance costs; and inbound and outbound handling costs which are largely comprised of hourly paid dock labour. The cost of transportation and services for our healthcare logistics segment includes purchased transportation services, including fuel surcharges, sourced from carriers. ATS Healthcare is the largest provider of transportation services to Accuristix and LSU, followed by Skelton. Intersegment purchased transportation expense is eliminated on consolidation.

Direct Operating Expenses

Direct operating expenses are both fixed and variable and consist of operating costs related to our facilities (including our distribution centres, branches and the cross-docks that we operate from). Direct operating expenses consist mainly of personnel costs and facility and equipment expenses such as property taxes, utilities, equipment maintenance and repair, costs of materials and supplies, security and insurance expenses. We note that under IFRS 16 the costs associated with our leases are not recognized in our direct operating expenses.

Selling, General and Administrative Expenses

Selling, General and Administrative (“SG&A”) expenses primarily consist of the cost of salaries and benefits for executive and certain administration functions, including information technology, sales and client service, finance and accounting, professional fees, facility costs, legal costs and other expenses related to the corporate infrastructure required to support our business.

Depreciation & Amortization

Depreciation and amortization charges comprise non-cash charges expensed on the statement of income and comprehensive income to spread the purchase price of assets over their useful lives. Within both of our operating segments, we lease facilities and certain equipment rather than allocating significant cash flows to capital expenditures. We believe this approach provides us with greater flexibility and lower risks and results in cost savings as compared to capital expenditure intensive models. Accordingly, lease costs comprise a significant component of our expenses. Under IFRS 16, leases have been capitalized, resulting in depreciation and interest expense rather than direct operating expense.

Operating Income

Operating Income measures the amount of profit derived from our operations after deducting operating expenses such as cost of transportation and services, direct operating expense, SG&A, and depreciation and amortization. We do not typically measure “cost of sales or gross profit” as we are a service business.

Interest Expense

Interest expense comprises interest charged to the statement of income and comprehensive income primarily in connection with leased facilities and equipment under IFRS 16, and for borrowings under our Credit Facilities.

Interest Income

Interest income comprises interest earned on cash and cash equivalents. In Fiscal 2021, we sub-leased a facility to a third party that had previously been classified as a right-of-use asset. We derecognized the net book value from right-of-use assets and established a net investment sub-lease in connection with this facility. Interest income includes interest generated by this sub-lease.

Other Income/Expense

Other income (expense) comprises income or expenses that do not arise from our main business, such as exchange gains (losses) and gains (losses) resulting from the sale of property, plant and equipment and certain other insignificant sources.

Income Tax Expense/Recovery

Income tax expense (recovery) comprises the amount that we have recognized in the accounting period related to our taxable income. Our effective tax rate is generally close to the statutory rate, but certain differences between income for tax and accounting income are recognized in the deferred income tax provision.

Foreign Currency Translation Adjustment

In preparing our consolidated financial statements, the financial statements of each entity are translated into Canadian dollars. The assets and liabilities of foreign operations are translated to Canadian dollars at exchange rates as at the balance sheet date. Revenues and expenses of foreign operations are translated to Canadian dollars at exchange rates that approximate those on the date of the underlying transaction. Foreign exchange differences are recognized in other comprehensive income and accumulated in equity in accumulated other comprehensive income.

Non-IFRS Measures

EBITDA

We define EBITDA as net income for the period before: (i) income tax expense (recovery); (ii) interest income; (iii) interest expense; and (iv) depreciation and amortization. Net income is the most directly comparable IFRS financial measure disclosed in our financial statements to which EBITDA relates, and a reconciliation with this measure is presented under “Reconciliation of Non-IFRS Measures”.

We believe EBITDA is a useful measure to assess our financial performance because it provides a more relevant picture of operating results by excluding the effects of expenses that are not reflective of our underlying business performance.

EBITDA Margin

We define EBITDA Margin as EBITDA divided by revenue. EBITDA Margin represents a measure of our profitability expressed as a percentage of revenue.

We believe EBITDA Margin is a useful measure to assess our financial performance because it helps quantify our ability to convert revenues generated from clients into EBITDA.

Selected Consolidated Financial Information

The following table summarizes our results of operations for the periods indicated. The selected consolidated financial information for Q2 2023 and Q2 2022 has been derived from our unaudited interim condensed consolidated financial statements and the related notes thereto. See “Reconciliation of Non-IFRS Measures” for quantitative reconciliations of net income to EBITDA.

Consolidated Statements of Income and Comprehensive Income

(\$CAD 000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenue				
Logistics & distribution	39,438	41,845	79,961	75,090
Packaging solutions	4,236	6,164	9,746	11,922
Healthcare logistics segment	43,674	48,009	89,707	87,012
Ground transportation	103,451	106,332	211,711	203,826
Air freight forwarding	7,678	11,534	15,220	19,130
Dedicated and last mile delivery	16,339	17,117	33,470	32,562
Intersegment revenue	(13,785)	(13,590)	(27,977)	(24,777)
Specialized transportation segment	113,683	121,393	232,424	230,741
Total revenue	157,357	169,402	322,131	317,753
Operating expenses				
Cost of transportation and services	78,879	82,776	163,058	155,474
Direct operating expense	26,377	28,266	53,412	53,029
Selling, general and administrative expenses	12,686	12,145	25,796	23,382
Depreciation & amortization	16,820	16,058	33,580	31,549
	134,762	139,245	275,846	263,434
Operating income	22,595	30,157	46,285	54,319
Interest expense	(1,909)	(1,691)	(3,842)	(3,245)
Interest income	757	5	1,356	117
Other income (expense)	125	112	144	(155)
Income tax expense	(5,852)	(7,598)	(11,699)	(13,580)
Net income	15,716	20,985	32,244	37,456
Other comprehensive income				
Net income	15,716	20,985	32,244	37,456
Foreign currency translation adjustment	(5,039)	6,575	(5,239)	3,608
Total comprehensive income	10,677	27,560	27,005	41,064

(\$CAD 000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Earnings per share				
Earnings per share – basic	\$ 0.37	\$ 0.50	\$ 0.77	\$ 0.90
Earnings per share – diluted	\$ 0.37	\$ 0.49	\$ 0.76	\$ 0.88
Select financial metrics¹				
EBITDA	39,540	46,327	80,009	85,713
EBITDA Margin	25.1%	27.3%	24.8%	27.0%

¹ These are non-IFRS financial measures. See “How We Assess the Performance of Our Business – Non-IFRS Measures” for further information on these measures.

Consolidated Balance Sheets

(\$CAD 000s)	As At June 30,	
	2023	2022
Select financial position data		
Total assets	709,185	679,155
Total non-current liabilities	174,133	193,693

Consolidated Statements of Changes in Equity

(\$CAD 000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Select financial data				
Dividends	3,354	2,510	6,707	5,019

Reconciliation of Non-IFRS Measures

The following table provides a reconciliation of net income to EBITDA for Q2 2023 and Q2 2022:

(\$CAD 000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income	15,716	20,985	32,244	37,456
Income tax expense	5,852	7,598	11,699	13,580
Interest expense	1,909	1,691	3,842	3,245
Interest income	(757)	(5)	(1,356)	(117)
Depreciation and amortization	16,820	16,058	33,580	31,549
EBITDA¹	39,540	46,327	80,009	85,713

¹ This is a non-IFRS financial measure. See “How We Assess the Performance of Our Business – Non-IFRS Measures” for further information on this measure.

Results of Operations

Three months ended June 30, 2023 compared with 2022

The following section provides an overview of our financial performance for Q2 2023 compared to Q2 2022.

Revenue

Revenue for Q2 2023 decreased by 7.1% to \$157.4 million, compared with \$169.4 million in Q2 2022. The decrease is primarily attributable to lower fuel surcharge revenue, lower volume of air freight shipments, downward pressure on our US-based truckload rates and reduced revenue related to COVID-19 vaccines and ancillary products. Our COVID-19 related revenue declined to approximately 0.8% of consolidated revenue in Q2 2023, compared to approximately 2.6% in Q2 2022.

Healthcare Logistics Segment

Revenue in our healthcare logistics segment for Q2 2023 was \$43.7 million, a decrease of 9.0%, or approximately \$4.3 million, compared with Q2 2022. The decrease in revenue for this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for Q2 2023 was \$39.4 million, a decrease of 5.8%, or approximately \$2.4 million, compared with Q2 2022. The decrease is attributable to lower outbound order handling activities for Accuristix and reduced transportation billings impacted by fuel surcharge programs from carriers, which are passed on to customers. The decrease is also partially attributable to \$2.1 million of revenue recognized in Q2 2022 related to certain pass-through expenses which were reclassified to logistics and distributions revenue for LSU in accordance with IFRS 15 during Q4 2022. This net revenue treatment has been consistently applied during YTD 2023.

Packaging Solutions

Packaging revenue for Q2 2023 was \$4.2 million, a decrease of 31.3%, or approximately \$1.9 million, compared with Q2 2022. Our decline in packaging revenue primarily reflects the loss of one of our customers in Q1 2023, and lower volume from our remaining base of customers compared to Q2 2022.

Specialized Transportation Segment

Revenue in our specialized transportation segment for Q2 2023 was \$113.7 million, a decrease of 6.4%, or approximately \$7.7 million, compared with Q2 2022. Lower revenue in this segment was primarily driven by the factors set out below.

Ground Transportation

Ground transportation revenue for Q2 2023 was \$103.5 million, a decrease of 2.7%, or approximately \$2.9 million, compared with Q2 2022. The decrease is primarily attributable to lower fuel costs passed through to customers as a component of our pricing compared to Q2 2022. Ground transportation revenue, excluding fuel, in our Canadian network increased by approximately 3.0%. We continued to experience downward pressure on our US-based truckload rates as opportunities to obtain rate premiums in Fiscal 2022 related to equipment and driver shortages have diminished. We believe that our US-based revenue and related margins returned to pre-pandemic levels in Q1 2023 and Q2 2023 and we do not foresee a return to the premiums achieved in this space as those experienced in Fiscal 2022, which may impact the Company's comparative growth and margins in future periods.

Air Freight Forwarding

Air freight forwarding revenue for Q2 2023 was \$7.7 million, a decrease of 33.4%, or approximately \$3.9 million, compared to Q2 2022. Approximately 30.0% of the decrease in revenue for Q2 2023 was attributable to lower fuel surcharge revenue compared with Q2 2022. Air freight forwarding revenue for Q2 2022 was impacted by an increase in weight shipped by certain customers that were experiencing supply chain issues at the time resulting in an unusually high volume of shipments. Air freight forwarding volume for Q2 2023 was more typical of expected air freight forwarding volume and resulted in revenue comparable to our Q1 2023 revenue of \$7.5 million.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for Q2 2023 was \$16.3 million, a decrease of 4.5%, or approximately \$0.8 million, compared with Q2 2022. The decrease is primarily attributable to a decline in fuel surcharge revenue, partially offset by organic growth.

Cost of Transportation and Services

Cost of transportation and services for Q2 2023 was \$78.9 million, or 50.1% of revenue, compared with \$82.8 million, or 48.9% of revenue, for Q2 2022. The lower cost of transportation and services is primarily attributable to lower fuel costs in line with the decreases in revenue related to fuel prices. The increase in operating ratio is primarily attributable to lower pricing in our US-based truckload businesses (Boyle Transportation and Skelton USA) as opportunities to obtain rate premiums in Q2 2023 related to COVID-19 tailwinds and industry-wide equipment and driver shortages have diminished.

Direct Operating Expenses

Direct operating expenses were \$26.4 million, or 16.8% of revenue, compared with \$28.3 million, or 16.7% of revenue, for Q2 2022. Direct operating expenses in Q2 2023 reflect a reduction in outbound volume in our Accuristix logistics and distribution operations in line with lower revenue. The decrease is also partially attributable to the recognition of certain pass-through expenses in Q2 2022 which were reclassified to logistics and distributions revenue for LSU in accordance with IFRS 15 during Q4 2022. This net revenue treatment has been consistently applied during YTD 2023.

Selling, General and Administrative Expenses

SG&A expenses for Q2 2023 were \$12.7 million, or 8.1% of revenue, compared with \$12.1 million, or 7.2% of revenue, for Q2 2022. The \$0.6 million increase reflects investments in our business growth and is in line with our expected SG&A expenses as a percentage of revenue.

Depreciation and Amortization

Depreciation and amortization for Q2 2023 was \$16.8 million, an increase of 4.7% compared with \$16.1 million for Q2 2022. The increase is primarily attributable to investments in facilities and equipment to support our growth and is consistent as a percentage of our revenue at approximately 10%.

Interest Expense

Interest expense for Q2 2023 was \$1.9 million compared with \$1.7 million for Q2 2022. Interest expense related to leased facilities and equipment comprises the majority of interest expense; however, \$0.8 million of interest expense for Q2 2023 was incurred in connection with our Credit Facilities, compared with \$0.5 million in Q2 2022.

At this time, we expect to continue to hold debt under the Term Facility (as defined below), which does not have any repayment schedule except as a single repayment at the end of the four-year term and will incur interest expense until either early repayment or until maturity on March 1, 2025.

Interest Income

Interest income for Q2 2023 was \$0.8 million compared with effectively \$nil in Q2 2022. Interest income is generated on our cash and cash equivalents balances and has increased with higher cash balances and interest rates.

Other Income/Expense

Other income was \$0.1 million for Q2 2023, compared with \$0.1 million in Q2 2022. These amounts are immaterial to our overall performance for Q2 2023 and Q2 2022.

Income Tax Expense

Income tax expense for Q2 2023 was \$5.8 million compared with \$7.6 million in Q2 2022. Our effective tax rate was close to the statutory rate of 26.5% for Q2 2023 and Q2 2022.

Operating Income and Net Income

Operating income for Q2 2023 was \$22.6 million, a decrease of \$7.6 million, or 25.1%, compared with \$30.2 million for Q2 2022. The net decrease in operating income is primarily attributable to lower contributions from our Boyle Transportation and Skelton USA operations, lower air freight forwarding revenue, and to reduced revenue related to COVID-19 vaccines and ancillary products.

Income before tax for the specialized transportation segment was \$14.9 million for Q2 2023, compared with \$23.0 million for Q2 2022. The decrease is primarily attributable to lower contributions from Boyle Transportation and Skelton USA, partially offset by organic growth in our Canadian businesses.

Income before tax for the healthcare logistics segment was \$4.8 million for Q2 2023 compared with \$5.7 million for Q2 2022. The decrease reflects reduced outbound order handling activities in line with the decrease to revenue for the period.

Net income for Q2 2023 was \$15.7 million compared with \$21.0 million in Q2 2022. Lower segment net income before eliminations for our specialized transportation segment is primarily attributable to lower contributions from Boyle Transportation and Skelton USA; and lower segment net income from our healthcare logistics operating segment reflects reduced outbound order handling activities as discussed above.

Foreign Currency Translation Adjustment

Foreign exchange differences of \$(5.0) million have been recognized in other comprehensive income for Q2 2023 compared with \$6.6 million in Q2 2022. These differences reflect assets and liabilities of Boyle Transportation and Skelton USA which have been translated to Canadian dollars at the exchange rates as at June 30, 2023 and 2022, respectively, and revenues and expenses which have been translated to Canadian dollars at exchange rates that approximate those on the date of the underlying transactions.

Total Comprehensive Income

Total comprehensive income was \$10.7 million for Q2 2023 compared to \$27.6 million for Q2 2022. Total comprehensive income differs from net income due to the acquisition of foreign operations (Boyle Transportation and Skelton USA) resulting in foreign currency translation adjustments as described above.

EBITDA

EBITDA for Q2 2023 was \$39.5 million compared with \$46.3 million for Q2 2022. The decrease was due to the factors discussed above and primarily reflects lower contributions from our US-based truckload businesses and lower revenue related to COVID-19 vaccines and ancillary products.

EBITDA Margin

EBITDA Margin for Q2 2023 was 25.1%, compared with 27.3% for Q2 2022. The decrease is primarily attributable to lower margins in our US-based truckload businesses. The performance of our two operating segments continues to result in strong and industry-leading EBITDA Margins. The margin profiles of Boyle Transportation and Skelton USA, which had been in line with AHG's consolidated EBITDA range throughout Fiscal 2022, were impacted in YTD 2023 by macroeconomic factors such as increased equipment and driver availability resulting in fewer opportunities to obtain rate premiums. We believe that our US-based truckload rates and related margins returned to pre-pandemic levels in Fiscal 2023, and we do not foresee a return to the premium levels achieved in this space as those experienced in Fiscal 2022, which may impact the Company's comparative growth and margins in future periods.

Six months ended June 30, 2023 compared with 2022

The following section provides an overview of our financial performance for YTD 2023 and YTD 2022.

Revenue

Revenue for YTD 2023 increased by 1.4% to \$322.1 million compared with \$317.8 million in YTD 2022. Revenue attributable to our acquisition of LSU accounted for \$1.3 million of the \$4.4 million increase from YTD 2022 to YTD 2023. The remaining \$3.1 million increase comprises a combination of net organic growth for Accuristix, and organic growth in our Canadian ground transportation revenue, excluding the impact of fuel surcharge programs.

Healthcare Logistics Segment

Revenue in our healthcare logistics segment for YTD 2023 was \$89.7 million, an increase of 3.1%, or approximately \$2.7 million, compared with YTD 2022. Revenue growth in this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for YTD 2023 was \$80.0 million, an increase of 6.5%, or approximately \$4.9 million, compared with YTD 2022. Our acquisition of LSU on March 1, 2022 contributed approximately \$1.3 million of the increase, with the remaining increase attributable to organic growth within our existing client base. The increase is partially offset by \$2.7 million of revenue recognized in YTD 2022 related to certain pass-through expenses which were reclassified to logistics and distributions revenue for LSU in accordance with IFRS 15 during Q4 2022. This net revenue treatment has been consistently applied during YTD 2023.

Packaging Solutions

Packaging revenue for YTD 2023 was \$9.7 million, a decrease of 18.3%, or approximately \$2.2 million, compared with YTD 2022. The decline in packaging revenue reflects the loss of a customer in Q1 2023 and reduced volume from our remaining base of customers during Q2 2023.

Specialized Transportation Segment

Revenue in our specialized transportation segment for YTD 2023 was \$232.4 million, an increase of 0.7%, or approximately \$1.7 million, compared with YTD 2022. Revenue growth in this segment was primarily driven by the factors set out below.

Ground Transportation

Ground transportation revenue for YTD 2023 was \$211.7 million, an increase of 3.9%, or approximately \$7.9 million, compared with YTD 2022. The increase is attributable to organic growth for ATS Healthcare, partially offset by lower truckload revenue from our US subsidiaries, Boyle Transportation and Skelton USA. Increases in fuel-related revenue driven by increased fuel surcharges in Q1 2023 were offset by decreases in fuel related surcharges in Q2 2023.

Air Freight Forwarding

Air freight forwarding revenue for YTD 2023 was \$15.2 million, a decrease of 20.4%, or approximately \$3.9 million, compared with YTD 2022. The decrease was attributable to an approximate 29% volume decline in YTD 2023 compared to YTD 2022, reflecting the loss of unusually high air freight forwarding shipment volume in Q2 2022. Air freight forwarding volume and revenue are in line with our expectations for YTD 2023.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for YTD 2023 was \$33.5 million, an increase of 2.8%, or approximately \$0.9 million, compared with YTD 2022. The increase is attributable to expanded routes for existing clients, partially offset by reduced fuel-related revenue passed on to clients reflecting decreased fuel costs during Q2 2023 compared with Q2 2022.

Cost of Transportation and Services

Cost of transportation and services for YTD 2023 was \$163.1 million, or 50.6% of revenue, compared with \$155.5 million, or 48.9% of revenue, for YTD 2022. The increase in cost of transportation and services reflects increased ground shipment volume related to ATS Healthcare and Skelton, and higher fuel costs during Q1 2023 in line with the increase in ground transportation revenue related to fuel for Q1 2023. The increase in operating ratio is primarily attributable to lower pricing in our US-based truckload businesses (Boyle Transportation and Skelton USA) as opportunities to obtain rate premiums in YTD 2023 related to COVID-19 tailwinds and equipment and driver shortages have diminished.

Direct Operating Expenses

Direct operating expenses for YTD 2023 were \$53.4 million, or 16.6% of revenue, compared with \$53.0 million, or 16.7% of revenue, for YTD 2022. Our acquisition of LSU on March 1, 2022 comprises an increase of approximately \$1.2 million in YTD direct operating expenses, partially offset by decreased volumes of outbound shipping volumes for Accuristix in Q2 2023. The increase is further offset by the recognition of certain pass-through expenses in Q2 2022 which were reclassified to logistics and distributions revenue for LSU in accordance with IFRS 15 during Q4 2022. This net revenue treatment has been consistently applied during YTD 2023.

Selling, General and Administrative Expenses

SG&A expenses for YTD 2023 were \$25.8 million, or 8.0% of revenue, compared with \$23.4 million, or 7.4% of revenue, for YTD 2022. The increase reflects investments in our business growth and is in line with our expected SG&A expenses as a percentage of revenue.

Depreciation and Amortization

Depreciation and amortization for YTD 2023 was \$33.6 million, an increase of 6.4%, or \$2.0 million, compared with \$31.5 million for YTD 2022. The increase is primarily attributable to organic growth and is consistent as a percentage of our revenue at approximately 10%.

Other Income/Expense

Other income for YTD 2023 was \$0.1 million compared with other expense of \$0.2 million for YTD 2022. These amounts are immaterial to our overall performance for these periods.

Interest Income

Interest income for YTD 2023 was \$1.4 million compared with \$0.1 million for YTD 2022. Interest income is generated on our cash and cash equivalents balances and reflects higher cash balances and interest rates in YTD 2023.

Interest Expense

Interest expense for YTD 2023 was \$3.8 million compared with \$3.2 million for YTD 2022. Interest expense related to leased facilities and equipment comprises the majority of interest expense; however, \$1.6 million of interest expense was incurred in YTD 2023 in connection with the Credit Facilities, compared to \$0.8 million in YTD 2022. At this time, we expect to continue to hold debt under the Term Facility, which does not have any repayment schedule except as a single repayment at the end of the term and will incur interest expense on the Term Facility until either early repayment or until maturity on March 1, 2025.

Income Tax Expense

Income tax expense for YTD 2023 was \$11.7 million compared with \$13.6 million for YTD 2022. Our effective tax rate was close to the statutory rate of 26.5% for both YTD 2023 and YTD 2022 after removing the effect of non-deductible share-based compensation expenses.

Operating Income and Net Income

Operating income for YTD 2023 was \$46.3 million, a decrease of \$8.0 million, or 14.8%, compared with \$54.3 million for YTD 2022. Approximately \$5.8 million of the decrease is attributable to lower margins in our US-based truckload businesses as described above. We believe that our US-based truckload rates and related margins have returned to pre-pandemic levels in Fiscal 2023, and we do not foresee a return to the premium levels achieved in this space as those experienced in Fiscal 2022, which may impact the Company's comparative growth and margins in future periods. The remaining decrease in operating income is attributable to lower revenue generated from COVID-19 related business, lower outbound volume in Accuristix in Q2 2023, and lower air freight forwarding revenue in Q2 2023 compared to Q2 2022, partially offset by organic growth in our Canadian ground transportation network.

Net income for YTD 2023 decreased by 13.9%, or \$5.2 million, to \$32.2 million, from \$37.5 million for YTD 2022. Lower segment net income before eliminations for our specialized transportation operating segment, primarily attributable to reduced US-based truckload rates and related margins and lower air freight forwarding revenue in Q2 2023, contributed to our decreased profitability on a consolidated basis.

Foreign Currency Translation Adjustment

Foreign exchange adjustments of \$(5.2) million have been recognized in other comprehensive income for YTD 2023 compared to \$3.6 million for YTD 2022. This reflects assets and liabilities of Skelton USA and Boyle Transportation which have been translated to Canadian dollars at the exchange rate as at June 30, 2023 and 2022, respectively, and revenues and expenses which have been translated to Canadian dollars at exchange rates that approximate those on the date of the underlying transaction.

Total Comprehensive Income

Total comprehensive income attributable to the owners of the Company was \$27.0 million for YTD 2023 compared to \$41.1 million for YTD 2022. Total comprehensive income differs from net income due to the acquisition of foreign operations (Skelton USA and Boyle Transportation) resulting in foreign currency translation adjustments as described above.

EBITDA

EBITDA for YTD 2023 decreased by 6.7% to \$80.0 million, from \$85.7 million for YTD 2022. The decrease in EBITDA was due to the factors discussed above.

EBITDA Margin

EBITDA Margin for YTD 2023 was 24.8% compared with 27.0% for YTD 2022 and is in line with our pre-pandemic historical range of EBITDA Margins.

Summary of Quarterly Results

While there is no significant seasonality to our business, our results are impacted by our clients' storage and shipping activities throughout the year as well as the timing of new client implementations or exits.

The table below sets out our results for each of the eight most recently completed quarters (unaudited):

(\$CAD 000s) except per share data	Q2-23	Q1-23	Q4-22	Q3-22	Q2-22	Q1-22	Q4-21	Q3-21
Total revenue	157,357	164,774	165,772	164,898	169,402	148,351	133,025	104,199
Operating income	22,595	23,690	28,166	27,860	30,157	24,162	21,452	16,796
Net income	15,716	16,528	19,824	18,995	20,985	16,471	53,104	12,188
Total comprehensive income	10,677	16,328	17,052	32,902	27,560	13,504	55,993	12,188
EBITDA ¹	39,540	40,469	44,684	44,072	46,327	39,386	73,691	28,026
Earnings per share – basic	\$0.37	\$0.39	\$0.47	\$0.45	\$ 0.50	\$ 0.39	\$ 1.29	\$ 0.32
Earnings per share - diluted	\$0.37	\$0.39	\$0.46	\$0.44	\$ 0.49	\$ 0.39	\$ 1.26	\$ 0.31

¹ This is a non-IFRS financial measure. See “How We Assess the Performance of Our Business – Non-IFRS Measures” for further information on this measure.

Generally, changes in revenue generated through the past eight quarters reflect changes in shipping volumes from our clients, variable fuel surcharge rates, premium U.S. ground transportation rates in Fiscal 2022, and the impact of price increases which are contractually implemented in both of our operating segments annually or as contracts are renegotiated. Our acquisitions of Skelton and 49% of Skelton USA in Q1 2021, Boyle Transportation and the remaining 51% of Skelton USA in Q4 2021, and LSU in Q1 2022 have driven step change increases in revenue as well. Several factors, described above, impacted lower revenue in Q2 2023 including a decline in fuel surcharge revenues driven by lower fuel prices compared to the previous five quarters. Revenue in Q1 2023 and Fiscal 2022 reflects increases in fuel prices which are passed on to customers as a component of our pricing. Revenue in Q3 2022 was slightly lower than Q2 2022 revenue as average diesel fuel prices were lower by approximately 9% than in Q2 2022. Average diesel fuel prices increased again from Q3 2022 to Q4 2022 and remained relatively stable in Q4 2022. Average fuel prices were approximately 19% higher in Q1 2023 than in Q2 2023.

During Fiscal 2022 and Fiscal 2021, we supported the distribution of COVID-19 vaccines and related products, such as test kits and personal protective equipment. Revenue related to COVID-19 declined as a percentage of our total revenue throughout Fiscal 2022 from approximately 5.5% in Q2 2022 to approximately 2.3% in Q4 2022 and was negligible in YTD 2023. We do not expect any appreciable revenue related to COVID-19 for the remainder of Fiscal 2023.

Operating income, net income, comprehensive income, and EBITDA have continued to perform consistently in line with revenue over the past eight quarters. YTD 2023 EBITDA margins in our US-based truckload businesses returned to pre-pandemic levels and negatively impacted our consolidated margins in Q1 2023 and Q2 2023 relative to Q1 2022 and Q2 2022 by approximately 2.0%.

We completed our acquisition of Skelton USA in two separate transactions (49% on March 1, 2021 and the remaining 51% on November 1, 2021). Accordingly, in accordance with IFRS 3, we re-measured our previously held equity interest in Skelton USA at its estimated fair value on November 1, 2021 resulting in a gain of \$37.9 million being recognized in income from the step acquisition. Net income, total comprehensive income, EBITDA and earnings per share figures for Q4 2021 reflect this gain.

Liquidity & Capital Resources

Overview

Our principal uses of funds are for operating expenses, taxes, interest, capital expenditures, lease payments and dividends. We believe that cash generated from our operations, together with amounts available under our Credit Facilities will be sufficient to meet our future operating expenses, taxes, interest, capital expenditures, lease payments and any dividends that may be declared by our board of directors. However, our ability to fund operating expenses, taxes, interest, capital expenditures and future lease payments will depend on, among other things, our future operating performance, which will be affected by general economic, financial and other factors, including factors beyond our control. See “Accounting Classifications and Fair Values”, “Summary of Factors Affecting Performance” and “Risk Factors” in this MD&A. We review potential acquisitions and investment opportunities in the normal course of our business and may make select acquisitions and investments to implement our growth strategy when suitable opportunities arise.

Our tuck-in acquisitions of TDS and MCI in October 2020 for a purchase price of approximately \$15.9 million in cash were funded from existing cash flow from operations. We financed the acquisitions of Skelton and the initial 49% of Skelton USA in March 2021 through a combination of cash on hand and by drawing \$50.0 million on our Revolving Credit Facility and \$25.0 million on our Term Facility, and by issuing \$25.0 million of Subordinate Voting Shares to the shareholders of Skelton and Skelton USA. During Fiscal 2021, we repaid \$39.0 million of the \$50.0 million initially drawn on our Revolving Credit Facility in connection with the Skelton and Skelton USA acquisitions.

On November 1, 2021, we completed the acquisitions of 100% of Boyle Transportation and the remaining 51% of Skelton USA, increasing our aggregate ownership of Skelton USA to 100%. The aggregate purchase price for the acquisition of Boyle Transportation was approximately US\$83.0 million (\$104.7 million), of which approximately US\$63.0 million was paid in cash and US\$20.0 million was satisfied by issuing 522,116 Subordinate Voting Shares to the shareholders of Boyle Transportation. The aggregate purchase price for the acquisition of the remaining 51% interest in Skelton USA was approximately \$44.8 million, of which \$19.8 million was paid in cash and \$25 million was satisfied by issuing 518,672 Subordinate Voting Shares to the shareholders of Skelton USA. The cash portion of the purchase price for each acquisition was funded through the completion of a bought deal equity offering on October 26, 2021, pursuant to which AHG issued 2.0 million Subordinate Voting Shares from treasury for gross proceeds of \$96.4 million to the Company, with the remaining amounts funded from existing cash flow from operations.

On March 1, 2022, we acquired LSU for approximately \$26.7 million. We satisfied the purchase price through the issuance of 154,639 Subordinate Voting Shares to the shareholders of LSU and cash of approximately \$19.2 million comprising the cash portion of the purchase price net of provisional customary working capital adjustments. We financed the cash portion of the purchase price through a combination of cash on hand and by drawing on our Revolving Credit Facility. During Fiscal 2022, we repaid \$23.0 million of the amounts drawn on our Revolving Credit Facility in connection with the LSU and Skelton acquisitions. As at June 30, 2023, there was \$nil drawn on our Revolving Credit Facility.

Working Capital

The following table presents our working capital position as at June 30, 2023 and 2022:

(\$CAD 000s)	As at June 30,	
	2023	2022
Cash and cash equivalents	84,265	29,280
Trade and other receivables	95,622	100,588
Inventories	3,620	3,089
Prepaid expenses and other	7,012	5,435
Due from related parties	139	65
Accounts payable and accrued liabilities	(38,348)	(42,778)
Current portion of lease liabilities	(26,199)	(27,456)
Income taxes payable	(8,777)	(18,982)
Working Capital	117,334	49,241

As at June 30, 2023, we had working capital of \$117.3 million compared with working capital of \$49.2 million as at June 30, 2022. The \$68.1 million increase in working capital is primarily attributable to the profitable growth of our business and the repayment of amounts drawn on our Revolving Credit Facility. Although the Revolving Credit Facility does not have any repayment terms, we classify amounts drawn on it in current liabilities as we expect to reduce any amounts drawn within the following twelve months with free cash flow generated from operations.

Credit Facilities

We entered into credit facilities upon closing of our IPO, comprised of a revolving credit facility (the “Revolving Credit Facility”) in the aggregate principal amount of up to \$75.0 million and a term facility (the “Term Facility”, and together with the Revolving Credit Facility, the “Credit Facilities”) in the aggregate principal amount of up to \$25.0 million. On February 19, 2021, in connection with our acquisitions of Skelton and 49% of Skelton USA, we amended our Credit Facilities to increase the amounts available to be drawn under the Revolving Credit Facility and the Term Facility each by \$25.0 million. The amended Credit Facilities comprise a Revolving Credit Facility in the aggregate principal amount of up to \$100.0 million and a Term Facility in the aggregate principal amount of up to \$50.0 million. The remaining terms and conditions of the Credit Facilities remain unchanged, except that they will mature and be due and payable on March 1, 2025. As at June 30, 2023, the aggregate amount outstanding before financing costs under the Credit Facilities was \$50.0 million under the Term Facility and \$nil under the Revolving Credit Facility.

The Revolving Credit Facility is 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. The Term Facility was drawn in a single Canadian dollar advance of \$25.0 million on closing of the IPO by way of prime rate loans and was subsequently converted to bankers’ acceptances and increased by a single Canadian dollar advance of \$25.0 million by way of bankers’ acceptances in connection with the Skelton acquisitions on March 1, 2021.

The Credit Facilities are subject to customary negative covenants and include financial covenants requiring us to maintain at all times a maximum net leverage ratio and a minimum interest coverage ratio, tested on a quarterly basis. As at June 30, 2023, we were in compliance with all of the covenants under the Credit Facilities.

In order to support future potential growth through acquisitions, the Credit Facilities also include an accordion feature to allow us to increase the commitment under one or both of the Credit Facilities in an aggregate principal amount of up to \$100.0 million, such that any amounts drawn under the accordion feature would be in addition to the amounts ordinarily available, subject to the agreement of participating lenders and provided that we are not, or would not, be in default under the Credit Facilities, or in non-compliance with any financial covenants and an event of default does not or would not exist, after giving effect thereto and provided that all representations and warranties are true and correct immediately prior to, and after giving effect to, such increase. As of the date of this MD&A, this accordion feature remains uncommitted.

Capital Expenditures

Capital expenditures for Q2 2023 were \$5.2 million, compared with \$4.0 million for Q2 2022. Capital expenditures have historically been funded through cash flows from operations. We have traditionally divided our capital expenditures into two subcategories, capital expenditures (maintenance) and capital expenditures (growth), which are discussed further below.

Skelton and Boyle Transportation have traditionally purchased their fleets, whereas ATS Healthcare and Skelton USA have historically leased their equipment. As our operating segments run autonomously, we expected these entities to continue their past practices, however the Company has evaluated different lease versus purchase scenarios for its fleets in order to optimize its free cash flow and maintain operational efficiency moving forward. The Company will generally seek to lease tractors and purchase trailers in the foreseeable future to ensure that its tractor fleet continues to run the most fuel efficient and latest diesel engines; and will generally seek to purchase trailers to ensure that their underlying useful lives are maximized. Beyond this evaluation, there are no known trends or expected fluctuations in our capital resources, including expected changes in the mix and relative cost of these resources.

Capital Expenditures (Maintenance)

Maintenance capital expenditures refers to capital expenditures necessary for us to sustain our assets in order to continue operating in our current form. We generally seek to maintain our facilities and equipment at a level consistent with the needs of the sector we operate within and ensure that preventative maintenance programs are in place to achieve the performance expected from our facilities and equipment. Outlays for maintenance capital expenditures for Q2 2023 were \$1.6 million, compared with \$0.9 million for Q2 2022. These capital expenditures were funded through cash flows from operations.

Capital Expenditures (Growth)

Growth capital expenditures comprise expenditures on new assets that are intended to grow our productive capacity. These capital expenditures are made to acquire or expand leasehold improvements, transportation and logistics equipment (including pick-up and delivery equipment, warehouse racking, material handling equipment, warehouse automation equipment and specialized logistics equipment such as coolers or vaults, among others), furniture and fixtures, and computer equipment to support new contracts or additional volume from new business. Outlays for growth capital expenditures for Q2 2023 \$3.6 million, compared with \$3.1 million in Q2 2022.

Growth capital expenditures can range from \$5.0 million to over \$15.0 million in any given fiscal year, depending on the underlying expansion need. Growth capital expenditures have also historically been funded through cash flows from operations. Growth capital expenditures for YTD 2023 and Fiscal 2022 relate primarily to the purchase of new tractors and trailers by Skelton and include approximately \$0.3 million in Q2 2023 related to warehouse equipment for a new LSU facility in Laval, Québec. Growth capital expenditures for Q2 2022 were attributable to the purchase of tractors and trailers by Skelton.

We are implementing the Tecsys Itopia® platform, a best-in-class healthcare logistics ‘software as a service’ platform, to replace our prior warehouse management system (“WMS”). Tecsys Inc. is an industry-leading supply chain management software company, and its technology stack will provide us with enhanced warehouse management and transportation management capabilities as well as end-to-end analytics and business intelligence. Our first client went live on our new WMS in Q4 2022 and implementations will continue throughout Fiscal 2023 and into Fiscal 2024. In YTD 2023 we capitalized \$1.0 million to intangible assets in connection with our new WMS.

Cash Flows

The following table presents cash flows for the three months and year ended June 30, 2023 and 2022:

(\$CAD 000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Cash flows				
Cash from Operating Activities	26,225	33,678	50,621	63,003
Cash from (used in) Financing Activities	(10,767)	(27,847)	(21,255)	(31,462)
Cash (used in) from Investing Activities	(5,121)	(2,004)	(10,461)	(27,493)
Effect of foreign currency translation ¹	(468)	399	(495)	242
Net change in cash	9,869	4,226	18,410	4,290
Select cash flow data				
Capital expenditures	(5,222)	(4,017)	(10,431)	(7,162)
Lease payments	(8,066)	(8,533)	(16,375)	(16,774)

¹ Comprises the effect of differences in exchange rates for U.S. dollar opening balance sheet cash balances on January 1, 2023 and 2022 versus June 30, 2023 and 2022 for Boyle Transportation and Skelton USA.

Cash Flow Generated From Operating Activities

Cash flow generated from operating activities for Q2 2023 and YTD 2023 totaled \$26.2 million and \$50.6 million, respectively, compared with \$33.7 million and \$63.0 million for Q2 2022 and YTD 2022, respectively. The decrease in cash flows generated from operating activities relates principally to lower revenue in Q2 2023 compared with Q2 2022 and normal fluctuations in trade accounts receivable, trade accounts payable and other working capital balances.

Cash Flow (Used In) Generated From Financing Activities

Cash flow used in financing activities for Q2 2023 and YTD 2023 totaled \$10.8 million and \$21.3 million, respectively, compared with \$27.8 million and \$31.5 million, respectively, for Q2 2022. On March 1, 2022 we made a \$12.0 million draw on our Revolving Credit Facility in connection with the acquisition of LSU of which we repaid \$5.0 million by the end of Q2 2022. The remaining cash flows used in financing activities in Q2 2023 and Q2 2022 relate principally to ordinary course repayments of lease liabilities and related party balances. In Q1 2023 and Q3 2022 we increased our quarterly dividend to \$0.08 (from \$0.07) and to \$0.07 (from \$0.06) per Subordinate Voting Share and Multiple Voting Share, respectively.

Cash Flow Used In Investing Activities

Cash flow used in investing activities for Q2 2023 and YTD 2023 totaled \$5.1 million and \$10.5 million, respectively, compared with \$2.0 million and \$27.5 million for Q2 2022 and YTD 2022, respectively. The decrease in YTD 2023 compared to YTD 2022 is primarily attributable to our acquisition of LSU in Q1 2022 which comprised \$21.8 million net of cash acquired. The remaining amounts, including the increase of approximately \$3.1 million in Q2 2023 compared to Q2 2022, comprised normal course expenditures on property, plant and equipment and intangible assets.

Contractual Obligations

As at June 30, 2023, we had the following contractual commitments:

- Outstanding letters of guarantee in the amount of \$0.4 million (June 30, 2022 – \$0.4 million);
- Commitments relating to the leasing of fleet equipment, ranging from 72 to 84 months, beginning upon delivery to us of the equipment in Fiscal 2023, for total lease commitments of \$14.7 million (June 30, 2022 – \$5.9 million); and
- Commitments to purchase fleet equipment expected to be delivered during Fiscal 2023 totaling \$6.1 million (June 30, 2022 – \$14.0 million).

Credit facilities

As at June 30, 2023, the aggregate amounts outstanding under the Credit Facilities were \$50.0 million under the Term Facility (June 30, 2022 – \$50.0 million) and \$nil under the Revolving Credit Facility (June 30, 2022 – \$nil) before capitalized financing costs. The Credit Facilities will mature and be due and payable on March 1, 2025.

Leases

We lease buildings and equipment in the operation of our healthcare logistics and specialized transportation operating segments. Building lease terms range from five to 10 years, with many leases including optional extension periods. For Q2 2023, facility lease liabilities are calculated using our incremental borrowing rate of 5.60% (Q2 2022 – 4.71%). Equipment lease terms range from one to seven years. For Q2 2023, equipment lease liabilities are calculated using our incremental borrowing rate of 5.43% (Q2 2022 – 4.48%) for our specialized transportation segment and 5.78% (Q2 2022 – 5.04%) for our healthcare logistics segment.

The following table summarizes our contractual obligations as at June 30, 2023 based on undiscounted cash flows:

(\$CAD 000s)	Total	Less than 1 Year	1-5 Years	More than 5 years
Credit facilities	50,000	-	50,000	-
Lease liabilities	113,289	26,412	77,298	9,579
Equipment purchases and lease commitments	20,820	8,377	12,443	-
Other obligations	91,414	47,125	44,289	-
Total contractual obligations	275,523	81,914	184,030	9,579

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have, or are reasonably expected to have, a current or future material impact on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Seasonality

There is no significant seasonality to our business.

Financial Instruments

Financial assets

Accounts receivable are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when we become a party to the contractual provisions of the instrument.

A financial asset (unless it is an account receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. An account receivable without a significant financing component is initially measured at the transaction price.

Our financial assets are comprised of cash and cash equivalents, accounts receivable, and long-term deposits. On initial recognition, we classify these financial assets as measured at amortized cost, when both of the following conditions are met:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These financial assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been decreased.

For accounts receivable, we apply a simplified approach in calculating expected credit losses (“ECLs”). Therefore, we do not track changes in credit risk but instead recognize a loss allowance based on lifetime ECLs at each reporting date. We have established a provision matrix that is based on our historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are offset against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Financial liabilities

Our financial liabilities are comprised of accounts payable and accrued liabilities, lease liabilities, income taxes payable and amounts due from related parties. Our financial liabilities are measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on de-recognition is also recognized in profit or loss.

Foreign exchange contracts

The Company, from time to time, uses foreign exchange contracts to manage certain exposures to fluctuations in foreign exchange rates as part of its overall risk management program. Earnings impacts from derivatives used to manage a particular risk are reported as part of other comprehensive income.

There were no foreign exchange contracts in place during YTD 2023 or as at June 30, 2023 or throughout Fiscal 2022.

Related Party Transactions

Intercompany balances and transactions have been eliminated in our unaudited interim condensed consolidated financial statements for the periods ended June 30, 2023 and 2022.

During Q2 2023 and Q2 2022, we entered into transactions with related parties that were incurred in the normal course of business. Our policy is to conduct all transactions and settle all balances with related parties at market terms and conditions. All outstanding balances with these related parties are measured at amortized cost and 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 year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

Certain of our operating units provide services to other operating units outside of their reportable segment. Billings for such services are based on negotiated rates, which approximate fair value, and are reflected as revenues of the billing segment. These rates are adjusted from time to time based on market conditions. Such intersegment revenues and expenses are eliminated in our consolidated results. Michael Andlauer, our Chief Executive Officer (“CEO”), is also our Chief Operating Decision Maker (“CODM”). The CODM regularly reviews financial information at the operating segment level in order to make decisions about resources to be allocated to the segments and to assess their performance. Segment results that are reported to the CODM include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. We evaluate performance based on the various financial measures of our two operating segments.

The amounts below are expressed in thousands of Canadian dollars, unless otherwise specified.

Andlauer Management Group Inc.

As of the date hereof, Andlauer Management Group Inc. (“AMG”) holds all of the Multiple Voting Shares of the Company (the “Multiple Voting Shares” and, together with the Subordinate Voting Shares, the “Shares”) and 10,200 Subordinate Voting Shares, 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, our CEO and a director of the Company.

We undertake a limited amount of administrative shared services for AMG. We expect to continue to incur and recover such costs in connection with AMG. For YTD 2023, we charged AMG \$8 (YTD 2022 – \$6) for recovery of shared services costs.

Andlauer Properties and Leasing Inc.

Andlauer Properties and Leasing Inc. (“APLI”) is a subsidiary of AMG and leases certain facilities and logistics and transportation equipment to us. We also lease facilities and logistics and transportation equipment from arm’s length providers. During YTD 2023, we paid \$1,027 (YTD 2022 - \$1,192) for leases of logistics and transportation equipment; and \$1,189 (YTD 2022 - \$982) for leases of facilities from APLI. The specific facilities that we lease from APLI are located at: 881 Bell Blvd. W, Belleville, Ontario; 18 Sandbourne Dr., Pontypool, Ontario; 80 – 14th Avenue, Hanover, Ontario; 465 Ofield Road South, Dundas, Ontario; 605 Max Brose Drive, London, Ontario; and 5480 61 Avenue SE, Calgary, Alberta. We expect to continue leasing properties and equipment from APLI. For YTD 2023, we charged APLI \$10 (YTD 2022 - \$10) for recovery of shared services costs.

9143-5271 Québec Inc.

9143-5271 Québec Inc. is a subsidiary of AMG and leases a facility located at 655 Desserte E. Hwy 13, Laval, Québec to AHG. We also lease facilities from arm’s length providers. During YTD 2023, we paid \$770 (YTD 2022 - \$766) for this building. We expect to continue leasing this property. For YTD 2023, we charged 9143-5271 Québec Inc. \$16 (YTD 2022 - \$16) for recovery of shared services costs.

Ready Staffing Solutions Inc.

Ready Staffing Solutions Inc. (“RSS”), a company owned by Mr. Andlauer’s spouse, provides us with temporary agency employee services – providing hourly dock labour for our handling operations, principally in the Greater Toronto Area. We also purchase temporary agency employee services from arm’s length providers. During YTD 2023, we expensed \$3,425 (YTD 2022 - \$3,037) for purchases of temporary agency employee services from RSS. We expect to continue purchasing temporary agency services from RSS.

1708998 Ontario Limited (Medical Courier Services)

Medical Courier Services (“MCS”) is a subsidiary owned 80% by AMG and provides transportation services to us, providing extended reach for shipments where we do not have our own facilities or equipment. During YTD 2023, we expensed \$80 (YTD 2022 - \$67) for deliveries subcontracted to MCS. We expect to continue subcontracting deliveries to MCS. Similarly, in YTD 2023 we invoiced MCS for \$106 (YTD 2022 - \$91) for transportation services provided to MCS. For YTD 2023, we charged MCS \$12 (YTD 2022 - \$6) for recovery of shared services costs.

Med Express Ltd.

Med Express Ltd. (“MEL”) is a subsidiary owned 100% by AMG. MEL provides transportation services to AHG, providing extended reach for shipments where we do not have our own facilities or equipment. We purchased \$20 in services during YTD 2023 (YTD 2022 - \$13). We expect to continue to subcontract deliveries to MEL from time to time.

D.C. Racking & Maintenance Inc. and Logiserv Inc.

D.C. Racking & Maintenance Inc. (“DCR”) and Logiserv Inc. (“Logiserv”) are partially owned by Cameron Joyce, an AHG director. DCR provides warehouse racking installation, maintenance and repairs for our healthcare logistics segment. Logiserv provides us with warehouse racking and racking components as well as warehouse racking installation, maintenance and repairs. We also purchase warehouse racking installation, maintenance and repairs, and warehouse racking and racking components from arm’s length providers. During YTD 2023, we expensed \$nil (YTD 2023 - \$14) for warehouse racking installation, maintenance and repair services provided by DCR and Logiserv. We expect to continue to purchase warehouse racking installation, maintenance and repair services from DCR and Logiserv. During YTD 2023, we purchased \$nil (YTD 2022 - \$47) of warehouse racking and racking components from DCR and Logiserv.

C-GHBS Inc.

C-GHBS Inc. (“C-GHBS”) is a subsidiary of AMG and provides air travel services to us. We also purchase air travel services from arm’s length providers. During YTD 2023, we purchased \$58 (YTD 2022 - \$72) from C-GHBS. We expect to continue to purchase air travel services from C-GHBS.

Key Management Personnel

Our 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 our CEO, the other four named executive officers comprising key management and the board of directors.

During YTD 2023, we recorded \$2,419 (YTD 2022 – \$2,269) related to key management personnel salaries and benefits, share-based compensation, and director fees.

Due from/to related parties

The charts below summarize amounts due to or from related parties.

(\$CAD 000s)	As at June 30,	
	2023	2022
Accounts receivable		
Andlauer Properties and Leasing Inc.	13	8
1708998 Ontario Limited (Medical Courier Services)	37	34
Trade receivables due from related parties	50	42
Due from related parties		
Andlauer Management Group Inc.	65	50
Andlauer Properties and Leasing Inc.	74	15
Due from related parties	139	65
Total due from related parties	189	107
Accounts payable and accrued liabilities		
Ready Staffing Solutions Inc.	312	483
Andlauer Properties and Leasing Inc.	253	75
Andlauer Management Group Inc.	32	-
Trade payables due to related parties	597	558
Due to related parties		
Andlauer Properties and Leasing Inc.	104	146
Due to related parties	104	146
Total due to related parties	701	704

Critical Accounting Judgements and Estimates

The preparation of our consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities, the disclosures about contingent assets and liabilities, and the reported amounts of revenues and expenses and apply equally to both our healthcare logistics segment and our specialized transportation segment. Such estimates include the expected credit losses on accounts receivable, the useful life of long-lived assets, our incremental borrowing rate, valuation of property, plant and equipment, valuation of goodwill and intangible assets, the measurement of identified assets and liabilities acquired in business combinations, share-based compensation arrangements, the provision for income taxes and other provisions and contingencies. These estimates and assumptions are based on management's best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. Actual results could differ from these estimates. Changes in those estimates and assumptions resulting from changes in the economic environment will be reflected in the consolidated financial statements of future periods. Information about critical judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year have been described in our consolidated financial statements for the years ended December 31, 2022 and 2021. Key estimates and assumptions remain consistent with those disclosed in our

consolidated financial statements.

Significant New Accounting Standards

Adopted During the Period

There were no new standards that became effective for periods beginning on or after January 1, 2023 that had a material impact on our unaudited interim condensed consolidated financial statements for YTD 2023.

To be Adopted in Future Periods

There are no new or anticipated standards which will become effective in future periods that are expected to have a material impact on our consolidated financial statements.

Accounting Classifications and Fair Values

Our financial instruments consist of cash and cash equivalents, accounts receivable, deposits, and accounts payable and accrued liabilities. We believe that the carrying amount of each of these items is a reasonable approximation of fair value.

Risk Factors

For a detailed description of risk factors associated with the Company, refer to the “Risk Factors” section of our AIF, which is available on the Company’s profile on SEDAR at www.sedarplus.ca.

Credit Risk

We are exposed to credit risk in the event of non-performance by counterparties in connection with our financial assets, namely cash and cash equivalents, accounts receivable and long-term deposits. We do not typically obtain collateral or other security to support the accounts receivable subject to credit risk but mitigate this risk by performing credit check procedures for new clients and monitoring credit limits for existing clients. Thereby, we deal only with what management believes to be financially sound counterparties and, accordingly, do not anticipate significant loss for non-performance.

The maximum exposure to credit risk for cash and cash equivalents, accounts receivable and long-term deposits approximate the amount recorded on the consolidated balance sheets.

Liquidity Risk

Liquidity risk is the risk that we will encounter difficulty in meeting the obligations associated with our financial liabilities that are settled by delivering cash or another financial asset. Our approach to managing liquidity is to ensure, as far as possible, that we will have sufficient liquidity to meet our liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to our reputation.

Our exposure to liquidity risk is dependent on the collection of accounts receivable, or raising of funds to meet commitments and sustain operations. We control liquidity risk by management of working capital, cash flows and the availability of borrowing facilities.

We have entered into Credit Facilities with affiliates of RBC, CIBC, and The Bank of Nova Scotia, comprised of a Revolving Credit Facility in the aggregate principal amount of up to \$100.0 million and a Term Facility in the aggregate principal amount of up to \$50.0 million. 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. In order to support future potential growth through acquisitions, the Credit Facilities also include an accordion feature to allow us to increase the commitment under one or both of the Credit Facilities in an aggregate principal amount of up to \$100.0 million, such that any amounts drawn under the accordion feature would be in addition to the amounts ordinarily available, subject to the agreement of participating lenders and provided that we are not, or would not, be in default under the Credit Facilities or in non-compliance with any financial covenants and an event of default does not or would not exist, after giving effect thereto and provided that all representations and warranties are true and correct immediately prior to, and after giving effect to, such increase. As at June 30, 2023, the aggregate amounts outstanding under the Credit Facilities were \$50.0 million under the Term Facility and \$nil under the Revolving Credit Facility before capitalized financing costs. As of the date of this MD&A, this accordion feature remains uncommitted.

Our accounts payable and accrued liabilities are due and payable in the short term.

Interest Rate Risk

We have a Revolving Credit Facility and Term Facility that each bear interest at a floating rate subject to fluctuations in interest rates. Changes in interest rates can cause fluctuations in interest payments and cash flows. We do not use derivative financial instruments to mitigate the effect of this risk. 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 June 30, 2023, the Credit Facilities comprise bankers' acceptances drawn at an interest rate of 6.4%. Although interest rates have increased during YTD 2023 there has been no significant impact on our financial condition or results of operations. There may be further increases in interest rates in the near term as the Governing Council of the Bank of Canada continues to target 2-3% inflation, however we expect that any such increases will not significantly impact our financial condition.

Currency Risk

We enter into foreign currency purchase and sale transactions and have assets and liabilities that are denominated in foreign currencies and thus are exposed to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. We use derivative instruments to reduce our exposure to foreign currency risk only where appropriate. During YTD 2023 and as at June 30, 2023 there were no derivative instruments in place.

Outstanding Share Data

Our authorized share capital consists of an unlimited number of Subordinate Voting Shares, an unlimited number of Multiple Voting Shares and an unlimited number of preferred shares, issuable in series. As at August 1, 2023, there were 20,082,328 Subordinate Voting Shares issued and outstanding, 21,840,000 Multiple Voting Shares issued and outstanding (each of which is convertible into Subordinate Voting Shares on a one-for-one basis), and no preferred shares issued and outstanding. In addition, as at such date we had 1,073,750 options, each of which can be exercised or settled for one Subordinate Voting Share and 49,199 Deferred Share Units issued and outstanding under our omnibus incentive plan. As of the date hereof, AMG holds all of the Multiple Voting Shares and 10,200 of the Subordinate Voting Shares, representing approximately 52.1% of the issued and outstanding Shares and 81.3% of the voting power attached to all of the Shares.

On March 24, 2023, the Company announced that the TSX had approved its notice of intention to make a normal course issuer bid (“NCIB”) for up to a maximum of 1,856,857 of its Subordinate Voting Shares, or approximately 10% of its public float as of March 23, 2023, over the 12-month period commencing on March 29, 2023. The bid will terminate on March 28, 2024, or such earlier time as the Company completes its purchases pursuant to the bid or provides notice of termination. In connection with the NCIB, the Company established an automatic securities purchase plan with its designated broker that contains specified parameters regarding how its Subordinate Voting Shares may be purchased under the NCIB during times when the Company would ordinarily not be permitted to make such purchases due to regulatory restrictions or self-imposed blackout periods. Any Subordinate Voting Shares purchased under the NCIB will be cancelled upon their purchase. AHG intends to fund purchases out of its available cash. As of the date hereof, no Subordinate Voting Shares have been purchased pursuant to the NCIB.

Subject to financial results, capital requirements, available cash flow, corporate law requirements and any other factors that our board of directors may consider relevant, we expect to declare a quarterly dividend on the Subordinate Voting Shares and Multiple Voting Shares equal to approximately \$0.09 per share on an ongoing basis. Our Q2 2023 dividend, in the amount of \$0.08 per Share, was paid on July 17, 2023 to shareholders of record as at June 30, 2023. Dividends are declared and paid in arrears. The amount and timing of the payment of any dividends are not guaranteed and are subject to the discretion of our board of directors.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

In compliance with the provisions of National Instrument 52-109 – *Certification of Disclosure in Issuers’ Annual and Interim Filings*, we have filed certificates signed by our CEO and by our Chief Financial Officer (“CFO”) that, among other things, report on:

- their responsibility for establishing and maintaining disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”) for the Company; and
- the design and effectiveness of DC&P and the design and effectiveness of ICFR.

Management, including our CEO and CFO, does not expect that the disclosure controls or internal controls over financial reporting of the Company will prevent or detect all errors and all fraud or will be effective under all potential future conditions. A control system is subject to inherent limitations and, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control systems objectives will be met.

Further, the design of a control system must reflect that there are resource constraints, and the benefits of controls must be considered relative to their costs. Inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of some persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The design of any control system is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Disclosure Controls and Procedures

The CEO and the CFO, have designed DC&P, or have caused them to be designed under their supervision, in order to provide reasonable assurance that:

- material information relating to AHG is made known to the CEO and CFO by others, particularly during the period in which the interim and annual filings are being prepared; and
- information required to be disclosed by AHG in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal Controls Over Financial Reporting

The CEO and CFO have also designed ICFR, or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The control framework used to design our ICFR is based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) on Internal Control – Integrated Framework (2013 framework).

Changes in Internal Controls Over Financial Reporting

No changes were made to our ICFR during YTD 2023 that have materially affected, or are reasonably likely to materially affect, our ICFR.

Additional Information

Additional information about AHG, including our AIF, can be found on our profile on SEDAR at www.sedarplus.ca or on our website at www.andlauerhealthcare.com.



Unaudited Interim Condensed Consolidated
Financial Statements of

**ANDLAUER HEALTHCARE
GROUP INC.**

For the three and six months ended June 30, 2023 and 2022

Andlauer Healthcare Group Inc.

Interim Condensed Consolidated Balance Sheets

As at June 30, 2023 and December 31, 2022

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

		June 30, 2023	December 31, 2022
Assets	Note		
Current assets			
Cash and cash equivalents		\$ 84,265	\$ 65,855
Trade and other receivables		95,622	98,423
Inventories		3,620	3,326
Prepaid expenses and other		7,012	4,416
Due from related parties	17	139	56
		<u>190,658</u>	<u>172,076</u>
Non-current assets			
Long-term deposits and other		1,211	997
Property, plant and equipment	5	168,100	175,880
Goodwill and intangible assets	6	344,027	357,698
Deferred income taxes	13	5,189	5,809
		<u></u>	<u></u>
Total Assets		\$ 709,185	\$ 712,460
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities		\$ 38,348	\$ 42,918
Current portion of lease liabilities	14	26,199	26,547
Income taxes payable		8,777	16,313
		<u>73,324</u>	<u>85,778</u>
Long-term liabilities			
Lease liabilities	14	80,153	87,182
Deferred income taxes	13	44,185	48,609
Due to related parties	17	104	342
Term facility	7	49,691	49,557
		<u>247,457</u>	<u>271,468</u>
Total Liabilities		247,457	271,468
Equity			
Common share capital	9	728,149	727,835
Contributed surplus	11	5,930	5,806
Accumulated other comprehensive income		14,403	19,642
Merger reserve	2	(488,916)	(488,916)
Retained earnings		202,162	176,625
		<u>461,728</u>	<u>440,992</u>
Commitments and contingencies	16		
Total Liabilities and Equity		\$ 709,185	\$ 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.

Interim Condensed Consolidated Statements of Income and Comprehensive Income

For the three and six months ended June 30, 2023 and 2022

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

	Note	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Revenue	12	\$ 157,357	\$ 169,402	\$ 322,131	\$ 317,753
Operating expenses					
Cost of transportation and services		78,879	82,776	163,058	155,474
Direct operating expenses		26,377	28,266	53,412	53,029
Selling, general and administrative expenses		12,686	12,145	25,796	23,382
Depreciation and amortization		16,820	16,058	33,580	31,549
		134,762	139,245	275,846	263,434
Operating income		22,595	30,157	46,285	54,319
Interest expense	15	(1,909)	(1,691)	(3,842)	(3,245)
Interest income		757	5	1,356	117
Other income (expenses)		125	112	144	(155)
Income before income taxes		21,568	28,583	43,943	51,036
Current income tax expense	13	7,111	9,290	14,796	17,001
Deferred income tax recovery	13	(1,259)	(1,692)	(3,097)	(3,421)
		5,852	7,598	11,699	13,580
Net income		\$ 15,716	\$ 20,985	\$ 32,244	\$ 37,456
Net earnings per share					
Basic earnings per share	10	\$ 0.37	\$ 0.50	\$ 0.77	\$ 0.90
Diluted earnings per share	10	\$ 0.37	\$ 0.49	\$ 0.76	\$ 0.88
Other comprehensive income					
Net income		\$ 15,716	\$ 20,985	\$ 32,244	\$ 37,456
Foreign currency translation adjustment		(5,039)	6,575	(5,239)	3,608
Other comprehensive (loss) income for the period		(5,039)	6,575	(5,239)	3,608
Total comprehensive income for the period		\$ 10,677	\$ 27,560	\$ 27,005	\$ 41,064

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

Andlauer Healthcare Group Inc.

Interim Condensed Consolidated Statements of Changes in Equity

For the six months ended June 30, 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 loss for the period	-	-	(5,239)	-	-	32,244	27,005
Share-based compensation (note 11)	8	314	-	-	124	-	438
Dividends (note 9)	-	-	-	-	-	(6,707)	(6,707)
Balance at June 30, 2023	41,922	\$ 728,149	\$ 14,403	\$ (488,916)	\$ 5,930	\$ 202,162	\$ 461,728
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	-	-	3,608	-	-	37,456	41,064
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)	4	23	-	-	622	-	645
Dividends (note 9)	-	-	-	-	-	(5,019)	(5,019)
Balance at June 30, 2022	41,828	\$ 727,396	\$ 8,507	\$ (488,916)	\$ 5,589	\$ 143,670	\$ 396,246

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

Andlauer Healthcare Group Inc.

Interim Condensed Consolidated Statements of Cash Flow

For the six months ended June 30, 2023 and 2022

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

	Note	June 30, 2023	June 30, 2022
Operating activities			
Net income for the period		\$ 32,244	\$ 37,456
Changes not involving cash:			
Depreciation and amortization		33,580	31,549
Amortization of capitalized financing costs	7	134	134
Share-based compensation	11	438	645
Deferred income tax recovery	13	(3,097)	(3,421)
Loss on disposal of property, plant and equipment		20	414
		<u>63,319</u>	<u>66,777</u>
Changes in non-cash operating working capital:			
Trade and other receivables		2,495	(5,632)
Inventories		(301)	(92)
Accounts payable and accrued liabilities		(4,440)	1,529
Income taxes payable		(7,619)	1,168
Net change in other operating working capital balances		(2,833)	(747)
Cash flows from operating activities		<u>50,621</u>	<u>63,003</u>
Financing activities			
Dividends	9	(6,707)	(5,019)
Principal repayments on lease liabilities	14	(14,134)	(14,334)
Net change in related party balances		(414)	(1,046)
Proceeds from revolving credit facility		-	12,000
Repayment of revolving credit facility		-	(23,000)
Transaction costs recorded in share capital		-	(63)
Cash flows used in financing activities		<u>(21,255)</u>	<u>(31,462)</u>
Investing activities			
Purchase of property, plant and equipment		(10,431)	(7,162)
Proceeds on disposal of property, plant and equipment		944	-
Purchase of intangible assets	6	(974)	(1,013)
Business combinations, net of cash acquired	4	-	(19,318)
Cash flows used in investing activities		<u>(10,461)</u>	<u>(27,493)</u>
Net increase in cash and cash equivalents		18,905	4,048
Effect of foreign currency translation on cash and cash equivalents		(495)	242
Cash and cash equivalents, beginning of period		<u>65,855</u>	<u>24,990</u>
Cash and cash equivalents, end of period		<u>\$ 84,265</u>	<u>\$ 29,280</u>

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

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 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 August 1, 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 Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 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 Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 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 June 30, 2023 and 2022 and for the three months then ended:

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at June 30, 2023 and for the three months then ended					
Revenue	\$ 127,468	\$ 43,674	\$ 1,783	\$ (15,568)	\$ 157,357
Segment income before tax	14,857	4,807	1,904	-	21,568
Interest income	559	166	2,307	(2,275)	757
Interest expense	(3,304)	(481)	(399)	2,275	(1,909)
Depreciation and amortization	(13,007)	(3,813)	-	-	(16,820)
Segment net income	10,940	3,395	1,381	-	15,716
Segment total assets	552,367	175,587	728,748	(747,517)	709,185
Additions of ROU assets	3,691	249	-	-	3,940
Capital expenditures	3,810	1,412	-	-	5,222
Segment total liabilities	215,901	81,775	29,791	(80,010)	247,457
As at June 30, 2022 and for the three months then ended					
Revenue	\$ 134,983	\$ 48,009	\$ 1,113	\$ (14,703)	\$ 169,402
Segment income before tax	22,981	5,661	(59)	-	28,583
Interest income	(771)	(52)	841	(13)	5
Interest expense	(925)	(534)	(245)	13	(1,691)
Depreciation and amortization	(12,337)	(3,721)	-	-	(16,058)
Segment net income	16,959	4,114	(88)	-	20,985
Segment total assets	526,284	173,322	737,400	(757,851)	679,155
Additions of ROU assets	2,262	198	-	-	2,460
Capital expenditures	3,247	770	-	-	4,017
Segment total liabilities	248,889	95,659	28,706	(90,345)	282,909

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023 and 2022

(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 June 30, 2023 and 2022 and for the six months then ended:

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at June 30, 2023 and for the six months then ended					
Revenue	\$ 260,401	\$ 89,707	\$ 3,568	\$ (31,545)	\$ 322,131
Segment income before tax	31,995	9,864	2,084	-	43,943
Interest income	130	265	3,236	(2,275)	1,356
Interest expense	(4,401)	(931)	(785)	2,275	(3,842)
Depreciation and amortization	(25,988)	(7,592)	-	-	(33,580)
Segment net income	23,587	7,163	1,494	-	32,244
Segment total assets	552,367	175,587	728,748	(747,517)	709,185
Additions of ROU assets	6,615	253	-	-	6,868
Capital expenditures	8,165	2,266	-	-	10,431
Segment total liabilities	215,901	81,775	29,791	(80,010)	247,457
As at June 30, 2022 and for the six months then ended					
Revenue	\$ 255,518	\$ 87,012	\$ 2,240	\$ (27,017)	\$ 317,753
Segment income (loss) before tax	41,417	9,925	(306)	-	51,036
Interest income	(1,546)	(45)	1,708	-	117
Interest expense	(1,800)	(1,054)	(391)	-	(3,245)
Depreciation and amortization	(24,596)	(6,953)	-	-	(31,549)
Segment net income (loss)	30,525	7,268	(337)	-	37,456
Segment total assets	526,284	173,322	737,400	(757,851)	679,155
Additions of ROU assets	6,141	198	-	-	6,339
Additions of property, plant and equipment through business combinations ¹	-	5,159	-	-	5,159
Capital expenditures	6,170	992	-	-	7,162
Segment total liabilities	248,889	95,659	28,706	(90,345)	282,909

¹ Includes \$3,798 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 June 30, 2023 and 2022.

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023 and 2022

(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.

For the period from acquisition on March 1, 2022 to June 30, 2022, LSU contributed revenue of \$9,993 and net income before amortization of intangible assets acquired of \$990 (\$460 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 \$322,000 and consolidated net income would have been approximately \$38,800. 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 six months ended June 30, 2022, transaction costs of \$345 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 final acquisition date fair value of identifiable net assets and goodwill acquired:

Identifiable assets acquired and liabilities assumed	LSU (March 1, 2022)
Cash and cash equivalents	\$ (71)
Trade and other receivables	4,636
Inventories	663
Prepaid expenses and other	140
Property, plant and equipment, including ROU assets	5,159
Intangible assets	15,900
Accounts payable and accrued liabilities	(1,778)
Income taxes payable	(4,160)
Lease liabilities	(3,398)
Deferred tax liabilities	(2,496)
Total identifiable net assets	14,595
Goodwill	12,152
Final purchase consideration	\$ 26,747

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 a net reduction of \$2,477 to the purchase consideration initially transferred. Trade and other receivables comprise gross amounts due of \$4,636, all of which were expected to be collectible at the acquisition date.

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2023 and 2022

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

4. Business combinations (continued)

The Company attributes value to the customer relationships maintained by LSU, and to its brand. For the six months ended June 30, 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	1,263	251	872	14,913	17,299
Dispositions	-	-	-	(1,981)	(1,981)
Foreign currency adjustments	(137)	(7)	(51)	(647)	(842)
Balance at June 30, 2023	\$ 162,872	\$ 9,430	\$ 24,516	\$ 200,407	\$ 397,225
Accumulated depreciation					
Balance at December 31, 2022	\$ 84,046	\$ 7,178	\$ 13,800	\$ 101,845	\$ 206,869
Depreciation for the period	8,932	209	1,206	13,185	23,532
Dispositions	-	-	-	(1,017)	(1,017)
Foreign currency adjustments	(30)	(1)	(5)	(223)	(259)
Balance at June 30, 2023	\$ 92,948	\$ 7,386	\$ 15,001	\$ 113,790	\$ 229,125
Net carrying amounts					
At December 31, 2022	\$ 77,700	\$ 2,008	\$ 9,895	\$ 86,277	\$ 175,880
At June 30, 2023	\$ 69,924	\$ 2,044	\$ 9,515	\$ 86,617	\$ 168,100

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 Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 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	-	-	-	974	974
Foreign currency adjustments	(2,244)	(2,146)	(641)	-	(5,031)
Balance at June 30, 2023	\$ 190,664	\$ 163,923	\$ 42,336	\$ 10,854	\$ 407,777
Accumulated amortization					
Balance at December 31, 2022	\$ -	\$ 43,172	\$ 5,647	\$ 5,317	\$ 54,136
Amortization for the period	-	7,521	2,140	387	10,048
Foreign currency adjustments	-	(334)	(100)	-	(434)
Balance at June 30, 2023	\$ -	\$ 50,359	\$ 7,687	\$ 5,704	\$ 63,750
Net carrying amounts					
At December 31, 2022	\$ 192,908	\$ 122,897	\$ 37,330	\$ 4,563	\$ 357,698
At June 30, 2023	\$ 190,664	\$ 113,564	\$ 34,649	\$ 5,150	\$ 344,027

7. Credit facilities

	June 30, 2023	December 31, 2022
Revolving credit facility	\$ -	\$ -
Term facility	50,000	50,000
	50,000	50,000
Less: capitalized financing costs	(309)	(443)
Credit facilities	\$ 49,691	\$ 49,557

Recorded in the consolidated balance sheets as follows:

	June 30, 2023	December 31, 2022
Revolving credit facility	\$ -	\$ -
Term facility	49,691	49,557
Credit facilities	\$ 49,691	\$ 49,557

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 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	134
Balance at June 30, 2023	\$ 49,691

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 June 30, 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 June 30, 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 and six months ended June 30, 2023 was \$807 and \$1,602, respectively, (2022 – \$480 and \$805, respectively).

Andlauer Healthcare Group Inc.

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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, 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
Shares issued in connection with the settlement of DSUs (note 11)	-	8	8	-	314	314
Balance at June 30, 2023	21,840	20,082	41,922	\$ 327,600	\$ 400,549	\$ 728,149

Dividends to subordinate voting and multiple voting shareholders

During the six months ended June 30, 2023, the Company declared total dividends of \$6,707, or \$0.16 per common share (June 30, 2022 – \$5,019, or \$0.12 per common share), on subordinate voting and multiple voting shares. Included in accounts payable and accrued liabilities as at June 30, 2023 is \$3,354 (June 30, 2022 – \$2,510) for dividends paid on July 17, 2023 and July 15, 2022, to common shareholders of record on June 30, 2023 and 2022 respectively.

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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:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
(in thousands of dollars and number of shares)				
Net income	\$ 15,716	\$ 20,985	\$ 32,244	\$ 37,456
Weighted average number of common shares	41,916	41,825	41,915	41,774
Earnings per share – basic	\$ 0.37	\$ 0.50	\$ 0.77	\$ 0.90

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:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
(in thousands of dollars and number of shares)				
Net income	\$ 15,716	\$ 20,985	\$ 32,244	\$ 37,456
Weighted average number of common shares	41,916	41,825	41,915	41,774
Dilutive effects:				
Stock options	732	794	731	808
Deferred share units	54	41	53	39
Weighted average number of diluted common shares	42,702	42,660	42,699	42,621
Earnings per share – diluted	\$ 0.37	\$ 0.49	\$ 0.76	\$ 0.88

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 six months ended June 30, 2023 (June 30, 2022 – 6 thousand). Of the options outstanding at June 30, 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)	June 30, 2023		June 30, 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
Exercised	-	-	(6)	15.00
Ending balance	1,074	\$ 15.00	1,196	\$ 15.00
Options exercisable	780	\$ 15.00	609	\$ 15.00

The Company recognized compensation expense of \$69 and \$139 for the three and six months ended June 30, 2023 respectively (2022 – \$167 and \$335 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 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 and six months ended June 30, 2023, the Company recognized a compensation expense of \$144 and \$299 respectively, with corresponding increases to contributed surplus (2022 – \$155 and \$310 respectively).

On June 5 and 12, 2023, an aggregate of 8 thousand DSUs were settled by the issuance of subordinate voting shares of the Company from treasury in connection with the retirement of a director resulting in a reduction of \$314 to contributed surplus and a corresponding increase in share capital.

The table below summarizes the changes in the outstanding DSUs:

(thousands of DSUs)	June 30, 2023	June 30, 2022
Opening balance	51	37
Granted	6	7
Settled	(8)	-
Closing balance	49	44

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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 June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Major products/service lines				
Logistics and distribution	\$ 39,438	\$ 41,845	\$ 79,961	\$ 75,090
Packaging solutions	4,236	6,164	9,746	11,922
Healthcare Logistics segment	43,674	48,009	89,707	87,012
Ground transportation	103,451	106,332	211,711	203,826
Air freight forwarding	7,678	11,534	15,220	19,130
Dedicated and last mile delivery	16,339	17,117	33,470	32,562
Intersegment revenue	(13,785)	(13,590)	(27,977)	(24,777)
Specialized Transportation segment	113,683	121,393	232,424	230,741
Total revenue	\$ 157,357	\$ 169,402	\$ 322,131	\$ 317,753

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Primary geographical markets				
Canada	\$ 125,094	\$ 136,875	\$ 256,140	\$ 254,912
United States	32,263	32,527	65,991	62,841
Total revenue	\$ 157,357	\$ 169,402	\$ 322,131	\$ 317,753

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13. Income taxes

a) Amounts recognized in income or loss

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Current income tax expense:				
Current taxes on income for the reporting period	\$ 7,237	\$ 9,290	\$ 14,922	\$ 17,001
Current taxes relating to previous periods and other adjustments	(126)	-	(126)	-
	7,111	9,290	14,796	17,001
Deferred income tax recovery:				
Utilization (Recognition) of tax benefits related to loss for the period	240	(192)	70	(408)
Origination and reversal of temporary differences	(1,659)	(1,500)	(3,327)	(3,013)
Deferred taxes relating to previous periods and other adjustments	160	-	160	-
	(1,259)	(1,692)	(3,097)	(3,421)
Income tax expense reported to the statements of income and comprehensive income	\$ 5,852	\$ 7,598	\$ 11,699	\$ 13,580

Total cash outflow for actual taxes paid for the three and six months ended June 30, 2023 was \$13,254 and \$22,162 respectively (June 30, 2022 – \$10,825 and \$15,598 respectively).

b) Amounts recognized directly in equity

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Transaction costs, before tax	\$ -	\$ -	\$ -	\$ 86
Tax	-	-	-	(23)
Transaction costs, net of tax	\$ -	\$ -	\$ -	\$ 63

c) Reconciliation of effective tax rate

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Income before income taxes	\$ 21,568	\$ 28,583	\$ 43,943	\$ 51,036
Consolidated Canadian federal and provincial income tax rate	26.5%	26.5%	26.5%	26.5%
Income tax expense based on statutory rate	5,716	7,574	11,645	13,525
Increase in income taxes resulting from non-deductible items or other adjustments	102	24	20	55
Taxes relating to previous years and other adjustments	34	-	34	-
Total income tax expense	\$ 5,852	\$ 7,598	\$ 11,699	\$ 13,580

Andlauer Healthcare Group Inc.

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13. Income taxes (continued)

d) Deferred taxes

	June 30, 2023	December 31, 2022
Deferred tax assets	\$ 5,189	\$ 5,809
Deferred tax liabilities	(44,185)	(48,609)
Net deferred tax liability	\$ (38,996)	\$ (42,800)

e) Movement in deferred tax balances

	June 30, 2023	Recognized in income or loss	Foreign currency adjustments	December 31, 2022
Plant and equipment	\$ (12,149)	\$ 1,508	\$ 146	\$ (13,803)
Accounts payable and accrued liabilities	791	(27)	(1)	819
Intangibles	(35,905)	2,550	592	(39,047)
Benefit of losses carried forward	2,713	(70)		2,783
Leases	3,815	(349)	(30)	4,194
Transaction costs	1,739	(515)		2,254
Net deferred tax (liability) asset	\$ (38,996)	\$ 3,097	\$ 707	\$ (42,800)

	December 31, 2022	Recognized in income or loss	Acquired in business combina- tions	Foreign currency adjustments	June 30, 2022
Plant and equipment	\$ (13,803)	\$ (2,257)	\$ 444	\$ (397)	\$ (11,593)
Accounts payable and accrued liabilities	819	120	-	5	694
Intangibles	(39,047)	1,313	1,982	(1,192)	(41,150)
Benefit of losses carried forward	2,783	221	-	-	2,562
Leases	4,194	(255)	(110)	56	4,503
Transaction costs	2,254	(518)	-	-	2,772
Net deferred tax (liability) asset	\$ (42,800)	\$ (1,376)	\$ 2,316	\$ (1,528)	\$ (42,212)

	June 30, 2022	Recognized in equity	Recognized in income or loss	Acquired in business combina- tions	Foreign currency adjustments	December 31, 2021
Plant and equipment	\$ (11,593)	\$ -	\$ 1,460	\$ (560)	\$ (101)	\$ (12,392)
Accounts payable and accrued liabilities	694	-	87	-	-	607
Intangibles	(41,150)	-	2,429	(2,107)	(486)	(40,986)
Benefit of losses carried forward	2,562	-	408	-	-	2,154
Leases	4,503	-	(441)	171	25	4,748
Transaction costs	2,772	23	(522)	-	-	3,271
Net deferred tax (liability) asset	\$ (42,212)	\$ 23	\$ 3,421	\$ (2,496)	\$ (562)	\$ (42,598)

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13. Income taxes (continued)

f) Unrecognized deferred tax liabilities

As at June 30, 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.

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 \$10,193 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 June 30, 2023 is 5.60% (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 six months ended June 30, 2023 is 5.43% for Specialized Transportation and 5.78 % 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 six months ended June 30, 2023	As at and for the year ended December 31, 2022
Opening balance	\$ 77,701	\$ 89,343
Add: additions	1,263	2,744
Add: additions through business combinations	-	2,756
Less: depreciation	(8,951)	(17,487)
Foreign currency adjustments	(108)	345
Ending balance	\$ 69,905	\$ 77,701

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14. Leases (continued)

Right-of-use assets – Logistics and transportation equipment	As at and for the six months ended June 30, 2023	As at and for the year ended December 31, 2022
Opening balance	\$ 32,333	\$ 33,443
Add: additions	5,605	9,294
Add: additions through business combinations	-	1,042
Less: depreciation	(5,712)	(11,519)
Foreign currency adjustments	(23)	73
Ending balance	\$ 32,203	\$ 32,333

Net carrying amounts of right-of-use assets included in property, plant and equipment	June 30, 2023	December 31, 2022
Facilities	\$ 69,905	\$ 77,701
Logistics and transportation equipment	32,203	32,333
Balance	\$ 102,108	\$ 110,034

Lease liabilities – Facilities	As at and for the six months ended June 30, 2023	As at and for the year ended December 31, 2022
Opening balance	\$ 86,925	\$ 98,681
Add: additions	1,263	2,744
Add: additions through business combinations	-	2,006
Add: interest expense	1,608	3,623
Less: principal repayments	(8,838)	(16,857)
Less: interest payments	(1,608)	(3,623)
Foreign currency adjustments	(111)	351
Ending balance	\$ 79,239	\$ 86,925

Lease liabilities – Logistics and transportation equipment	As at and for the six months ended June 30, 2023	As at and for the year ended December 31, 2022
Opening balance	\$ 26,804	\$ 28,282
Add: additions	5,605	9,294
Add: additions through business combinations	-	1,392
Add: interest expense	632	1,165
Less: principal repayments	(5,296)	(12,177)
Less: interest payments	(632)	(1,165)
Foreign currency adjustments	-	13
Ending balance	\$ 27,113	\$ 26,804

Cash lease principal payments	Six months ended June 30, 2023	Year ended December 31, 2022
Repayments of lease principal	\$ (14,134)	\$ (29,034)
Total lease payments	\$ (14,134)	\$ (29,034)

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14. Leases (continued)

Lease liabilities	June 30, 2023	December 31, 2022
Facilities	\$ (79,239)	\$ (86,925)
Logistics and transportation equipment	(27,113)	(26,804)
Balance	\$ (106,352)	\$ (113,729)
Lease liabilities included in consolidated balance sheets	June 30, 2023	December 31, 2022
Current	\$ (26,199)	\$ (26,547)
Non-current	(80,153)	(87,182)
Balance	\$ (106,352)	\$ (113,729)
Maturity analysis for lease liabilities – contractual undiscounted cash flows	June 30, 2023	December 31, 2022
Less than one year	\$ 29,782	\$ 30,523
One to 5 years	77,440	81,317
More than 5 years	8,910	12,886
Total undiscounted lease liabilities	\$ 116,132	\$ 124,726

Amounts recognized in the consolidated statements of income and comprehensive income in connection with interest expense for lease liabilities for the three and six months ended June 30, 2023 was \$1,102 and \$2,240 respectively (June 30, 2022 – \$1,211 and \$2,440 respectively). Total cash outflow for leases for the three and six months ended June 30, 2023 was \$8,065 and \$16,374 respectively (June 30, 2022 – \$8,533 and \$16,774 respectively).

Net investment lease	As at and for the six months ended June 30, 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 June 30, 2023 the lease has been fully paid and terminated. The Company recognized less than \$1 of interest income for the six months ended June 30, 2023 (2022 – \$8).

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15. Interest expense

Interest expense recognized in income and comprehensive income	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Leases	\$ 1,102	\$ 1,211	\$ 2,240	\$ 2,440
Credit facilities	807	480	1,602	805
Total interest expense	\$ 1,909	\$ 1,691	\$ 3,842	\$ 3,245

Interest expense recognized in the consolidated statements of income and comprehensive income equates to total interest paid for the periods ended June 30, 2023 and 2022.

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 June 30, 2023, the Company had outstanding letters of guarantee in the amount of \$365 (December 31, 2022 – \$365).
- 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 \$14,705 (December 31, 2022 – \$11,371).
- The Company has made commitments to purchase fleet equipment totalling approximately \$6,115 (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)

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Revenue				
Transportation services				
1708998 Ontario Limited (Medical Courier Services)	\$ 50	\$ 46	\$ 106	\$ 91
Shared service recovery				
Andlauer Properties and Leasing Inc.	5	5	10	10
Andlauer Management Group Inc.	4	3	8	6
9143-5271 Quebec Inc.	8	8	16	16
1708998 Ontario Limited (Medical Courier Services)	6	3	12	6
Expenses				
Transportation services				
1708998 Ontario Limited (Medical Courier Services)	36	39	80	67
Med Express Ltd.	10	7	20	13
Contract labour services				
Ready Staffing Solutions Inc.	1,732	1,574	3,425	3,037
Equipment rent				
Andlauer Properties and Leasing Inc.	527	604	1,027	1,192
Facility rent				
Andlauer Properties and Leasing Inc.	601	491	1,189	982
9143-5271 Quebec Inc.	387	383	770	766
Maintenance services				
D.C. Racking and Maintenance Inc. and Logiserv Inc.	-	8	-	14
Travel services				
C-GHBS Inc.	58	-	58	72
Capital Expenditures				
Purchases of logistics and transportation equipment				
Logiserv Inc.	-	47	-	47

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17. Related parties (continued)

	June 30, 2023	December 31, 2022
Trade receivables due from related parties		
Andlauer Properties and Leasing Inc.	\$ 13	\$ 15
1708998 Ontario Limited (Medical Courier Services)	37	32
	50	47
Due from related parties		
Andlauer Management Group Inc.	65	56
Andlauer Properties and Leasing Inc.	74	-
	139	56
Total due from related parties	\$ 189	\$ 103
Trade payables due to related parties		
Ready Staffing Solutions Inc.	\$ 312	\$ 463
1708998 Ontario Limited (Medical Courier Services)	-	18
Andlauer Properties and Leasing Inc.	253	73
Andlauer Management Group Inc.	32	9
C-GHBS Inc.	-	12
Logiserv Inc.	-	12
	597	587
Due to related parties		
Andlauer Properties and Leasing Inc.	104	342
Total due to related parties	\$ 701	\$ 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:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Key management compensation				
Salaries and benefits	\$ 1,016	\$ 876	\$ 2,031	\$ 1,746
Share-based payment arrangements	44	106	88	213
Director deferred share units	152	155	307	310
Total key management compensation	\$ 1,212	\$ 1,137	\$ 2,426	\$ 2,269

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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.

	June 30, 2023	December 31, 2022
Total lease liabilities	\$ 106,352	\$ 113,729
Term facility	49,691	49,557
Less: cash and cash equivalents	(84,265)	(65,855)
Net debt	71,778	97,431
Last twelve months' net income	71,063	76,275
Last twelve months' interest income	(1,838)	(599)
Last twelve months' interest expense	7,455	6,858
Last twelve months' income tax expense	25,602	27,483
Last twelve months' depreciation and amortization	66,483	64,452
EBITDA	168,765	174,469
Net leverage ratio	0.43	0.56