Andlauer
HEALTHCARE GROUP

Q2 2024 REPORT

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IN HEALTHCARE

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, 2024 and 2023

July 31, 2024

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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, 2024 and 2023 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, 2024 and 2023, 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, 2023 and 2022. This MD&A is presented as of July 31, 2024 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 2024" are to the three months ended June 30, 2024; "Q2 2023" are to the three months ended June 30, 2023; "Q2 2022" are to the three months ended June 30, 2022; "Q1 2024" are to the three months ended March 31, 2024; "Q1 2023" are to the three months ended March 31, 2023; "Q4 2023" are to the three months ended December 31, 2023; "Q4 2022" are to the three months ended December 31, 2022; "Q3 2023" are to the three months ended September 30, 2023; "Q3 2022" are to the three months ended September 30, 2022; "YTD 2024" are to the six months ended June 30, 2024; "YTD 2023" are to the six months ended June 30, 2023 "Fiscal 2025" are to the year ending December 31, 2025; "Fiscal 2024" are to the year ending December 31, 2024; "Fiscal 2023" are to the year ended 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"), our Credit Facilities, our WMS and our ESG reporting (each as defined below). 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, activity under the NCIB (as defined below) 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 and in the Middle East, including the Israel-Hamas war;
- 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 markets;
- 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;
- the possibility of a cyber attack impacting our information systems;
- 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 5, 2024 for Fiscal 2023 (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, 2024 and 2023 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, 2023 and 2022.

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. During the six months ended June 30, 2024, the Company has restructured and/or renamed certain subsidiaries with no meaningful impact on operations.

Non-IFRS Measures

This MD&A refers 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 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 2024, YTD 2024, Q2 2023 and YTD 2023, 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 70-75% of revenue) and government/defense sectors (approximately 25-30% 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 grown 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 32 secure, temperature-controlled facilities, the seven 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.andlauerheathcare.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 and CRST.

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.

During Fiscal 2023 we implemented a new long-term incentive plan under our Omnibus Equity Incentive Plan dated December 11, 2019, for certain management members in order to further promote share ownership among our employees, ensure that employees can participate in the Company's growth through its share price, and retain employees over the long-term.

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 2024 Compared to Q2 2023

Select highlights include the following:

- Revenue was $161.4 million in Q2 2024, compared to $157.4 million in Q2 2023;
- Operating income was $22.2 million in Q2 2024, compared to $22.6 million in Q2 2023;
- Net income was $15.7 million in Q2 2024, compared to $15.7 million in Q2 2023;
- Total comprehensive income for Q2 2024 was $18.1 million, compared to $10.7 million in Q2 2023;
- EBITDA was $40.1 million in Q2 2024, compared to $39.5 million in Q2 2023; and
- EBITDA Margin was 24.8% in Q2 2024 compared to 25.1% in Q2 2023.

YTD 2024 Compared to YTD 2023

Select highlights include the following:

- Revenue was $322.6 million, compared to $322.1 million in YTD 2023;
- Operating income was $43.4 million, compared to $46.3 million in YTD 2023;
- Net income was $30.7 million, compared to $32.2 million in YTD 2023;
- Total comprehensive income was $38.5 million, compared with $27.0 million in YTD 2023;
- EBITDA was $79.7 million, compared to $80.0 million in YTD 2023; and
- EBITDA Margin was 24.7% in YTD 2024, compared to 24.8% in YTD 2023.

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 (with respect to periods prior to Q3 2023) 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 ("IFRS 16"), 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 our logistics and distribution product line. 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.

Our Boyle Transportation and Skelton USA subsidiaries provide specialized temperature-controlled services to healthcare companies in the United States, and, in the case of Boyle Transportation, to certain defense contractors and the U.S. Department of Defense. These companies, acquired in Fiscal 2021, align with our specialized transportation segment in all material respects except that they focus on full truckload ground transportation services, which traditionally realize lower margins than our ground transportation businesses in Canada.

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. During Fiscal 2022 and Fiscal 2023, fluctuations in diesel fuel prices impacted both revenue and cost of transportation and services more significantly than in prior periods. This trend continues in Fiscal 2024, as average diesel fuel prices in Q2 2024 were approximately 7-8% higher than in Q2 2023.

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.

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 2024, YTD 2024, Q2 2023 and YTD 2023 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,	
	2024	**2023**	**2024**	**2023**
Revenue				
Logistics & distribution	39,463	39,438	77,381	79,961
Packaging solutions	4,786	4,236	9,728	9,746
Healthcare logistics segment	44,249	43,674	87,109	89,707
Ground transportation	105,006	103,451	211,394	211,711
Air freight forwarding	7,918	7,678	15,913	15,220
Dedicated and last mile delivery	18,329	16,339	36,074	33,470
Intersegment revenue	(14,056)	(13,785)	(27,906)	(27,977)
Specialized transportation segment	117,197	113,683	235,475	232,424
Total revenue	**161,446**	**157,357**	**322,584**	**322,131**
Operating expenses				
Cost of transportation and services	80,855	78,879	163,321	163,058
Direct operating expense	26,573	26,377	52,846	53,412
Selling, general and administrative expenses	14,241	12,686	27,057	25,796
Depreciation & amortization	17,602	16,820	35,942	33,580
	139,271	134,762	279,166	275,846
Operating income	**22,175**	**22,595**	**43,418**	**46,285**
Interest expense	(1,709)	(1,909)	(3,288)	(3,842)
Interest income	703	757	1,398	1,356
Other income	304	125	313	144
Income tax expense	(5,742)	(5,852)	(11,187)	(11,699)
Net income	**15,731**	**15,716**	**30,654**	**32,244**
Other comprehensive income				
Net income	15,731	15,716	30,654	32,244
Foreign currency translation adjustment	2,336	(5,039)	7,873	(5,239)
Total comprehensive income	**18,067**	**10,677**	**38,527**	**27,005**
Earnings per share				
Earnings per share – basic	$ 0.38	$ 0.37	$ 0.74	$ 0.77
Earnings per share – diluted	$ 0.38	$ 0.37	$ 0.73	$ 0.76
Select financial metrics[1]				
EBITDA	40,081	39,540	79,673	80,009
EBITDA Margin	24.8%	25.1%	24.7%	24.8%

[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,	
	2024	**2023**
Select financial position data		
Total assets	657,783	709,185
Total non-current liabilities	140,295	174,133

Consolidated Statements of Changes in Equity

($CAD 000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	**2023**	**2024**	**2023**
Select financial data				
Dividends	3,951	3,354	8,083	6,707

Reconciliation of Non-IFRS Measures

The following table provides a reconciliation of net income to EBITDA for Q2 2024 and Q2 2023:

($CAD 000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	**2023**	**2024**	**2023**
Net income	**15,731**	**15,716**	**30,654**	**32,244**
Income tax expense	5,742	5,852	11,187	11,699
Interest expense	1,709	1,909	3,288	3,842
Interest income	(703)	(757)	(1,398)	(1,356)
Depreciation and amortization	17,602	16,820	35,942	33,580
EBITDA[1]	**40,081**	**39,540**	**79,673**	**80,009**

[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.

<u>Results of Operations</u>

Three months ended June 30, 2024 compared with 2023

The following section provides an overview of our financial performance for Q2 2024 compared to Q2 2023.

<u>Revenue</u>

Revenue for Q2 2024 increased by 2.6% to $161.4 million, compared with $157.4 million in Q2 2023. The increase was primarily attributable to growth in our Canadian specialized transportation product lines, excluding fuel surcharge revenue, partially offset by lower revenue in our US-based truckload businesses (Boyle Transportation and Skelton USA).

Healthcare Logistics Segment

Revenue in our healthcare logistics segment for Q2 2024 was $44.2 million, an increase of 1.3%, or approximately $0.6 million, compared with Q2 2023. The increase in revenue for this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for Q2 2024 was $39.5 million, compared with $39.4 million for Q2 2023. The slight increase was primarily attributable to higher revenue from our pharmaceutical and biologics clients which was largely offset by lower outbound order handling and transportation activities for certain Accuristix consumer health clients.

Packaging Solutions

Packaging revenue for Q2 2024 was $4.8 million, an increase of 13.0%, or approximately $0.6 million, compared with Q2 2023. The increase primarily reflects increased volume from our packaging customers during Q2 2024 compared with Q2 2023 after the loss of a packaging customer in Q1 2023.

Specialized Transportation Segment

Revenue in our specialized transportation segment for Q2 2024 was $117.2 million, an increase of 3.1%, or approximately $3.5 million, compared with Q2 2023. The increase in revenue for this segment was primarily driven by the factors set out below.

Ground Transportation

Ground transportation revenue for Q2 2024 was $105.0 million, an increase of 1.5%, or approximately $1.6 million, compared with Q2 2023. The increase was primarily attributable to organic growth in our Canadian transportation network and higher fuel costs passed through to customers as a component of our pricing, partially offset by a decline in our US-based truckload business. Ground transportation revenue, excluding fuel, in our Canadian network increased by approximately 7.1%.

Air Freight Forwarding

Air freight forwarding revenue for Q2 2024 was $7.9 million, an increase of 3.1%, or approximately $0.2 million, compared to Q2 2023. The increase was attributable to approximately 4.2% higher weight shipped by our customers in Q2 2024 compared with Q2 2023, partially offset by slightly lower fuel surcharge revenue.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for Q2 2024 was $18.3 million, an increase of 12.2%, or approximately $2.0 million, compared with $16.3 million for Q2 2023. The increase reflects organic growth from our existing customers and increased revenue from fuel costs passed through to customers as a component of our pricing.

Cost of Transportation and Services

Cost of transportation and services for Q2 2024 was $80.9 million, or 50.1% of revenue, compared with $78.9 million, or 50.1% of revenue, for Q2 2023. The increased costs are in line with increases in revenue, including higher fuel prices. In Q2 2024, we continued to carry certain idle equipment costs in our US-based truckload businesses arising from a lower volume of truckloads as we focused on revenue quality.

Direct Operating Expenses

Direct operating expenses were $26.6 million, or 16.5% of revenue, compared with $26.4 million, or 16.8% of revenue, for Q2 2023 and were generally in line with the increase in revenue for Q2 2024.

Selling, General and Administrative Expenses

SG&A expenses for Q2 2024 were $14.2 million, or 8.8% of revenue, compared with $12.7 million, or 8.1% of revenue, for Q2 2023. The increase in SG&A expense was primarily attributable to legal and other professional fees in connection with corporate development activities, and increased expenses related to our implementation of a new WMS for Accuristix.

Depreciation and Amortization

Depreciation and amortization for Q2 2024 was $17.6 million, or 10.9% of revenue, compared with $16.8 million, or 10.7% of revenue for Q1 2023. Total depreciation and amortization expense is consistent as a percentage of our revenue at approximately 10% to 11%.

Interest Expense

Interest expense for Q2 2024 was $1.7 million compared with $1.9 million for Q2 2023. Interest expense related to leased facilities and equipment comprises the majority of interest expense; however, $0.5 million of interest expense for Q2 2024 was incurred in connection with our Credit Facilities, compared with $0.8 million in Q2 2023. The decrease in interest expense related to our Credit Facilities was attributable to lower amounts drawn, on average, during Q2 2024 compared with Q2 2023.

Interest Income

Interest income for Q2 2024 was $0.7 million compared with approximately $0.8 million in Q1 2023. Interest income is generated on our cash and cash equivalents balances.

Other Income

Other income was $0.3 million in Q2 2024 compared with $0.1 million in Q2 2023. These amounts vary from quarter to quarter and are not material to our overall performance for Q2 2024 and Q2 2023.

Income Tax Expense

Income tax expense for Q2 2024 was $5.7 million compared with $5.9 million in Q2 2023. Our effective tax rate was close to the statutory rate of 26.5% for Q2 2024 and Q2 2023 after adjusting for non-deductible items such as share-based compensation expenses, taxes relating to previous years, and other negligible adjustments.

Operating Income and Net Income

Operating income for Q2 2024 was $22.2 million, a decrease of $0.4 million, or 1.9%, compared with $22.6 million for Q2 2023. The decrease in operating income was primarily attributable to lower contributions from our Boyle Transportation and Skelton USA operations, and increased SG&A expenses related to corporate development activities.

Income before tax for the specialized transportation segment was $16.6 million for Q2 2024 compared with $14.9 million for Q2 2023. The increase was primarily attributable to growth in our Canadian specialized transportation businesses partially offset by lower contributions from Boyle Transportation and Skelton USA.

Income before tax for the healthcare logistics segment was $4.6 million for Q2 2024 compared with $4.8 million for Q2 2023. The decrease was primarily attributable to increased SG&A costs related to the implementation of a new WMS for Accuristix.

Net income for Q2 2024 was $15.7 million compared with $15.7 million in Q2 2023. Higher segment net income before eliminations for our specialized transportation segment was primarily attributable to organic growth in our Canadian specialized transportation business largely offset by lower contributions from Boyle Transportation and Skelton USA; and slightly higher segment net income from our healthcare logistics operating segment primarily reflects increased revenue from our packaging solutions business largely offset by increased SG&A costs related to the implementation of a new WMS for Accuristix.

Foreign Currency Translation Adjustment

Foreign exchange differences of $2.3 million and $(5.0) million have been recognized in other comprehensive income for Q2 2024 and Q2 2023, respectively. 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, 2024 and 2023, 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. Foreign exchange rates averaged approximately $1.3684 during Q2 2024 and approximately $1.3431 during Q2 2023.

Total Comprehensive Income

Total comprehensive income was $18.1 million for Q2 2024 compared to $10.7 million for Q2 2023. Total comprehensive income differs from net income due to our foreign operations (Boyle Transportation and Skelton USA) resulting in foreign currency translation adjustments as described above.

EBITDA

EBITDA for Q2 2024 was $40.1 million compared with $39.5 million for Q2 2023. The increase was due to the factors discussed above and primarily reflects organic growth in our Canadian specialized transportation network offset by lower contributions from our US-based truckload businesses. EBITDA attributable to Boyle Transportation and Skelton USA was approximately $2.8 million lower in Q2 2024 compared to Q2 2023.

EBITDA Margin

EBITDA Margin for Q2 2024 was 24.8% compared with 25.1% for Q2 2023. The decrease in EBITDA Margin was 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 were in line with our consolidated EBITDA Margins, have been impacted during Fiscal 2023 and YTD 2024 by post-pandemic macroeconomic factors such as increased equipment and driver availability, resulting in fewer opportunities to obtain rate premiums relative to Fiscal 2021 and Fiscal 2022.

Six months ended June 30, 2024 compared with 2023

The following section provides an overview of our financial performance for YTD 2024 and YTD 2023.

Revenue

Revenue for YTD 2024 increased by 0.1% to $322.6 million compared with $322.1 million in YTD 2023. Organic growth in our Canadian specialized transportation network was largely offset by lower revenue from our US-based truckload businesses and lower logistics and distribution revenue from Accuristx' consumer healthcare clients.

Healthcare Logistics Segment

Revenue in our healthcare logistics segment for YTD 2024 was $87.1 million, a decrease of 2.9%, or approximately $2.6 million, compared with YTD 2023. The decline in revenue in this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for YTD 2024 was $77.4 million, a decrease of 3.2%, or approximately $2.6 million, compared with YTD 2023. The decrease was primarily attributable to lower outbound order handling and transportation activities for certain Accuristix consumer health clients.

Packaging Solutions

Packaging revenue for YTD 2024 was $9.7 million, a decrease of 0.2%, or less than $0.1 million, compared with YTD 2023. The decline in packaging revenue reflects the loss of a customer in Q1 2023.

Specialized Transportation Segment

Revenue in our specialized transportation segment for YTD 2024 was $235.5 million, an increase of 1.3%, or approximately $3.1 million, compared with YTD 2023. Revenue growth in this segment was primarily driven by the factors set out below.

Ground Transportation

Ground transportation revenue for YTD 2024 was $211.4 million, a decrease of 0.1%, or approximately $0.3 million, compared with YTD 2023. The derease is attributable to lower truckload revenue from our US subsidiaries, Boyle Transportation and Skelton USA, offset by organic growth for ATS Healthcare and Skelton. Average fuel prices for YTD 2024 were generally in line with average fuel prices for YTD 2023.

Air Freight Forwarding

Air freight forwarding revenue for YTD 2024 was $15.9 million, an increase of 4.6%, or approximately $0.7 million, compared with YTD 2023. The increase was attributable to higher volumes of air shipments in YTD 2024 compared to YTD 2023.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for YTD 2024 was $36.1 million, an increase of 7.8%, or approximately $2.6 million, compared with YTD 2023. The increase is attributable to growth in volume and routes from our existing clients.

Cost of Transportation and Services

Cost of transportation and services for YTD 2024 was $163.3 million, or 50.6% of revenue, compared with $163.1 million, or 50.6% of revenue, for YTD 2023. Increased costs arising from organic growth in our Canadian specialized transportation network were partially offset by lower costs in our US-based truckload operations. Our operating ratio remained consistent despite lower pricing and idle equipment in our US-based truckload businesses, reflecting a lower volume of truckloads as we focused on revenue quality.

Direct Operating Expenses

Direct operating expenses for YTD 2024 were $52.8 million, or 16.4% of revenue, compared with $53.4 million, or 16.6% of revenue, for YTD 2023. The decrease in direct operating expenses was primarily attributable to a reduction in outbound order handling activities for Accuristix in line with lower revenue.

Selling, General and Administrative Expenses

SG&A expenses for YTD 2024 were $27.1 million, or 8.4% of revenue, compared with $25.8 million, or 8.0% of revenue, for YTD 2023. The increase reflects legal and other professional fees in connection with corporate development activities, and increased expenses related to our implementation of a new WMS for Accuristix.

Depreciation and Amortization

Depreciation and amortization for YTD 2024 was $35.9 million, an increase of 7.0%, or $2.4 million, compared with $33.6 million for YTD 2023. The increase was primarily attributable to organic growth and is consistent as a percentage of our revenue at approximately 10-11%.

Approximately $0.5 million of the increase was attributable to changes in the estimated useful lives and related depreciation methods of certain tangible assets arising from a reassessment of their expected usefulness to AHG and recent experience related to their economic lives. The changes in estimates have been made on a prospective basis. The full year impact of the changes in estimates is expected to result in a net reduction of depreciation expense attributable to these assets of $0.9 million.

Interest Expense

Interest expense for YTD 2024 was $3.3 million compared with $3.8 million for YTD 2023. Interest expense related to leased facilities and equipment comprises the majority of interest expense; however, $0.9 million of interest expense was incurred in YTD 2024 in connection with our Credit Facilities, compared to $1.6 million in YTD 2023. At this time, we expect to continue to hold debt under our Credit Facilities, which does not have any repayment schedule except as a single repayment at the end of the term and will incur interest expense on our Credit Facilities until either early repayment or until maturity on March 1, 2026.

Interest Income

Interest income for YTD 2024 was $1.4 million compared with $1.4 million for YTD 2023. Interest income is generated on our cash and cash equivalents balances.

Other Income

Other income for YTD 2024 was $0.3 million compared with other income of $0.1 million for YTD 2023. These amounts are immaterial to our overall performance for these periods.

Income Tax Expense

Income tax expense for YTD 2024 was $11.2 million compared with $11.7 million for YTD 2023. Our effective tax rate was close to the statutory rate of 26.5% for both YTD 2024 and YTD 2023 after removing the effect of non-deductible share-based compensation expenses.

Operating Income and Net Income

Operating income for YTD 2024 was $43.4 million, a decrease of $2.9 million, or 6.2%, compared with $46.3 million for YTD 2023. The decrease was attributable to lower margins in our US-based truckload businesses as described above. We believe that our US-based truckload rates and related margins returned to pre-pandemic levels in Fiscal 2023 and have continued to decline during YTD 2024. We do not foresee a return to the premium levels we experienced in Fiscal 2022, which may impact our comparative growth and margins in future periods.

Net income for YTD 2024 decreased by 4.9%, or $1.6 million, to $30.7 million, from $32.2 million for YTD 2023. Lower segment net income before eliminations for our specialized transportation operating segment, primarily attributable to reduced US-based truckload rates and related margins resulted in our decreased profitability on a consolidated basis.

Foreign Currency Translation Adjustment

Foreign exchange adjustments of $7.9 million have been recognized in other comprehensive income for YTD 2024 compared to $(5.2) million for YTD 2023. 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, 2024 and 2023, 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 was $38.5 million for YTD 2024 compared to $27.0 million for YTD 2023. 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 2024 decreased by 0.4% to $79.7 million, from $80.0 million for YTD 2023. The decrease in EBITDA was due to the factors discussed above.

EBITDA Margin

EBITDA Margin for YTD 2024 was 24.7% compared with 24.8% for YTD 2023 and is in line with our pre-pandemic historical range of EBITDA Margins. Our US-based truckload businesses have continued to negatively impact our consolidated 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	Q2-24	Q1-24	Q4-23	Q3-23	Q2-23	Q1-23	Q4-22	Q3-22
Total revenue	161,446	161,138	169,067	156,754	157,357	164,774	165,772	164,898
Operating income	22,175	21,243	28,044	21,724	22,595	23,690	28,166	27,860
Net income	15,731	14,923	18,561	15,335	15,716	16,528	19,824	18,995
Total comprehensive income	18,067	20,460	13,540	20,147	10,677	16,328	17,052	32,902
EBITDA[1]	40,081	39,592	44,773	39,011	39,540	40,469	44,684	44,072
Earnings per share – basic	$0.38	$0.36	$0.45	$0.37	$0.37	$0.39	$0.47	$0.45
Earnings per share - diluted	$0.38	$0.35	$0.44	$0.36	$0.37	$0.39	$0.46	$0.44

[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.

Several factors, described above, impacted lower revenue in Q2 2023 and Q3 2023 compared to the previous four quarters, including a decline in fuel surcharge revenues driven by lower diesel fuel prices, which are passed on to customers as a component of our pricing. Average fuel prices remained unchanged in Q2 2024 from Q1 2024. Average fuel prices decreased by approximately 7% in Q1 2024 from Q4 2023 and were approximately 8% below levels experienced in Q1 2023. Average diesel fuel prices declined from Q2 2022 to Q3 2022, then increased from Q3 2022 to Q4 2022, remained relatively stable in Q4 2022, then increased again in Q1 2023 before declining in Q2 2023 and then increased again in Q3 2023 and Q4 2023.

Beginning in 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 declined to less than 1% in Fiscal 2023 and YTD 2024. We do not expect any appreciable revenue related to COVID-19 in Fiscal 2024.

Operating income, net income, comprehensive income, and EBITDA have continued to perform in line with revenue over the past eight quarters. Fiscal 2023 EBITDA margins in our US-based truckload businesses returned to more normalized, pre-pandemic levels and negatively impacted our consolidated margins in Fiscal 2023 relative to Fiscal 2022 by approximately 2.0%. Our EBITDA margin improved in Q4 2023 due to new business growth in our ATS Healthcare business. Our EBITDA margin in Q1 2024 remained unchanged compared to Q1 2023 reflecting the gains made in our ATS Healthcare business offset by lower margins in our US-based truckload businesses. Our EBITDA margin in Q2 2024 continued to be negatively impacted by our US-based truckload businesses.

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 $25.0 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.

During Fiscal 2023, cash from operating activities continued to build our cash and cash equivalents balance. On March 29, 2023, the Company commenced the 2023 NCIB (as defined below). A total of 634,090 Subordinate Voting Shares, for a total of approximately $25.1 million, were purchased and cancelled pursuant to the 2023 NCIB, which terminated on March 28, 2024. The Company has entered into another NCIB which commenced on July 2, 2024. Further details regarding the 2023 and current NCIB are set out below.

During Q2 2024, we undertook a SIB as described below. A total of 2,000,000 Subordinate Voting Shares (including 1,032,045 Multiple Voting Shares on an as-converted basis), at a price of $45.00 per Share, for a total of $90.0 million, were purchased and cancelled pursuant to the SIB. The SIB expired on June 19, 2024. We used $50.0 million of cash on hand and a $40.0 million draw on our Revolving Credit Facility to finance the SIB. As at June 30, 2024, there was $40.0 million drawn on the Revolving Credit Facility.

Working Capital

The following table presents our working capital position as at June 30, 2024 and 2023:

($CAD 000s)	**As at June 30,**	
	2024	**2023**
Cash and cash equivalents	40,732	84,265
Trade and other receivables	97,578	95,622
Income taxes receivable	4,345	-
Inventories	5,834	3,620
Prepaid expenses and other	4,945	7,012
Due from related parties	109	139
Revolving Credit Facility	(40,000)	-
Accounts payable and accrued liabilities	(43,968)	(38,348)
Current portion of lease liabilities	(29,524)	(26,199)
Income taxes payable	-	(8,777)
Working Capital	**40,051**	**117,334**

As at June 30, 2024, we had working capital of $40.1 million compared with working capital of $117.3 million as at June 30, 2023. The decrease in working capital was primarily attributable to the use of cash on hand and the $40.0 million draw on our Revolving Credit Facility to finance the SIB, offset by ordinary fluctuations in working capital and a receivable balance for income taxes arising from tax installments remitted based on Fiscal 2022 earnings.

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. On June 26, 2024, we further amended our Credit Facilities to extend the term by one year. 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 $25.0 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, 2026, and bankers' acceptances loans were replaced by Canadian overnight repo rate average ("CORRA") loans. Although the Credit Facilities are payable on March 1, 2026, the Revolving Credit Facility has been classified as a current liability on our balance sheet as at June 30, 2024 as we intend to repay any drawn amounts within 12 months. As at June 30, 2024, the aggregate amount outstanding before financing costs under the Credit Facilities was $25.0 million under the Term Facility and $40 million under the Revolving Credit Facility.

The Revolving Credit Facility is available to be drawn in Canadian dollars by way of prime rate loans, CORRA loans 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 initial Term Facility advance of $25 million was repaid on August 1, 2023 leaving $25 million outstanding.

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, 2024, 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 2024 and YTD 2024 were $1.6 million and $9.6 million, respectively, compared with $5.2 million and $10.4 million, respectively, for Q2 2023 and YTD 2023. Capital expenditures have historically been funded through cash flows from operations. We have traditionally divided our capital expenditures into two subcategories, maintenance capital expenditures and growth capital expenditures, which are discussed further below.

The Company will generally seek to lease trucks and tractors for the foreseeable future to ensure that its 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.

Maintenance Capital Expenditures

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 2024 and YTD 2024 were $1.4 million and $9.0 million, respectively, compared with $1.6 million and $2.6 million, respectively, for Q2 2023 and YTD 2023. These capital expenditures were funded through cash flows from operations and are largely comprised of expenditures relating to purchases of specialized trailers for ATS Healthcare, Skelton, and Boyle Transportation and specialized Crēdo® packaging to maintain ATS Healthcare's specialized packaging rental program.

Growth Capital Expenditures

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 2024 and YTD 2024 were $0.2 million and $0.6 million, respectively, compared with $3.6 million and $7.8 million, respectively in Q2 2023 and YTD 2023.

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 Q2 2024 and YTD 2024 were primarily attributable to a cooler expansion in our Accuristix facility in Calgary. Growth capital expenditures for Q2 2023 and YTD 2023 were primarily attributable to the purchase of trailers for Skelton and Boyle and warehouse equipment for LSU.

We are implementing the Tecsys Itopia® platform, a healthcare logistics 'software as a service' platform, to replace our prior warehouse management system ("WMS"). Tecsys Inc. ("Tecsys") is a supply chain management software company, and its technology stack will provide us with updated 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 Q1 2023. Implementations continued throughout Fiscal 2023 and will continue throughout Fiscal 2024 and Fiscal 2025. Our new WMS implementation has extended beyond our original project timeline due, in part, to delays in the delivery of required 3PL functionality in the base application code. We are working closely with Tecsys to address our functionality requirements. We expect the implementation will be complete by the end of Fiscal 2025. In Q2 2024 and YTD 2024, we capitalized $0.3 million and $0.6 million, respectively, to intangible assets in connection with our new WMS.

Cash Flows

The following table presents cash flows for the three and six month periods ended June 30, 2024 and 2023:

($CAD 000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	**2023**	**2024**	**2023**
Cash flows				
Cash from Operating Activities	37,916	26,225	71,112	50,621
Cash (used in) Financing Activities	(64,056)	(10,767)	(81,465)	(21,255)
Cash (used in) Investing Activities	(1,394)	(5,121)	(9,423)	(10,461)
Effect of foreign currency translation[1]	108	(468)	768	(495)
Net change in cash	(27,246)	9,869	(19,008)	18,410
Select cash flow data				
Capital expenditures	(1,603)	(5,222)	(9,581)	(10,431)
Lease payments	(8,877)	(8,066)	(17,224)	(16,375)

1 Comprises the effect of differences in exchange rates for U.S. dollar opening balance sheet cash balances on January 1, 2024 and 2023 versus June 30, 2024 and 2023 for Boyle Transportation and Skelton USA.

Cash Flow Generated From Operating Activities

Cash flow generated from operating activities for Q2 2024 and YTD 2024 totaled $37.9 and $71.1 million, respectively, compared with $26.2 million and $50.6 million for Q2 2023 and YTD 2023, respectively. The increase in cash flows generated from operating activities relates principally to normal fluctuations in trade accounts receivable, trade accounts payable and other working capital balances. During Fiscal 2023 we made income tax installments based on Fiscal 2022 income taxes, resulting in an over installment of income taxes for Fiscal 2023 due to reduced operating income from our US-based truckload businesses. Accordingly, we have $4.3 million of income taxes receivable as at June 30, 2024.

Cash Flow Used In Financing Activities

Cash flow used in financing activities for Q2 2024 and YTD 2024 totaled $64.1 million and $81.5 million, respectively, compared with $10.8 million and $21.3 million for Q2 2023 and YTD 2023, respectively. The increase was primarily attributable to our purchase of 159,350 Subordinate Voting Shares for $6.3 million pursuant to our 2023 NCIB as described below in Q1 2024 and our purchase of 2,000,000 Subordinate Voting Shares for $90.0 million in Q2 2024 financed, in part, by a $40.0 million draw on our Revolving Credit Facility. The remaining cash flows used in financing activities in Q2 2024 and YTD 2024 and Q2 2023 and YTD 2023 relate to ordinary course repayments of lease liabilities and dividends. In Q1 2024, we increased our quarterly dividend to $0.10 (from $0.09) per Subordinate Voting Share and Multiple Voting Share, respectively.

Cash Flow Used In Investing Activities

Cash flow used in investing activities for Q2 2024 and YTD 2024 totaled $1.4 million and $9.4 million, respectively, compared with $5.1 million and $10.5 million for Q2 2023 and YTD 2023, respectively. The increase was primarily attributable to normal course expenditures on property, plant and equipment.

Contractual Obligations

As at June 30, 2024, we had the following contractual commitments:

- Outstanding letters of guarantee in the amount of $0.4 million (June 30, 2023 – $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 during Fiscal 2024, for total lease commitments of $15.4 million (June 30, 2023 – $14.7 million); and
- Commitments to purchase fleet equipment expected to be delivered during Fiscal 2024 totaling $1.6 million (June 30, 2023 – $6.1 million).

Credit facilities

As at June 30, 2024, the aggregate amounts outstanding under the Credit Facilities were $25.0 million under the Term Facility (June 30, 2023 – $50.0 million) and $40.0 million under the Revolving Credit Facility (June 30, 2023 – $nil) before capitalized financing costs. The Credit Facilities will mature and be due and payable on March 1, 2026.

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 ten years, with many leases including optional extension periods. For Q2 2024, facility lease liabilities are calculated using our average incremental borrowing rate of 5.68% (Q2 2023 – 5.60%). Equipment lease terms range from one to seven years. For Q2 2024, equipment lease liabilities are calculated using our average incremental borrowing rate of 5.75% (Q2 2023 – 5.43%) for our specialized transportation segment and 7.27% (Q2 2023 – 5.78%) for our healthcare logistics segment.

The following table summarizes our contractual obligations as at June 30, 2024 based on undiscounted cash flows:

($CAD 000s)	Total	Less than 1 Year	1-5 Years	More than 5 years
Credit facilities	65,000	-	65,000	-
Lease liabilities	115,118	33,687	77,669	3,762
Equipment purchases and lease commitments	17,022	3,997	13,025	-
Other obligations	84,663	43,968	40,695	-
Total contractual obligations	**281,803**	**81,652**	**196,389**	**3,762**

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, 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 Fiscal 2023, YTD 2024, or as at June 30, 2024.

Related Party Transactions

Intercompany balances and transactions have been eliminated in our unaudited interim condensed consolidated financial statements for the three and six-month periods ended June 30, 2024 and 2023.

During YTD 2024 and YTD 2023, 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 52.7% of the issued and outstanding Shares and 81.7% 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 2024, we charged AMG $nil (YTD 2023 – $8) 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 2024, we paid $1,183 (YTD 2023 - $1,027) for leases of logistics and transportation equipment; and $1,116 (YTD 2023 - $1,189) 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 2024, we charged APLI $nil (YTD 2023 - $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 2024, we paid $774 (YTD 2023 - $770) for this building. We expect to continue leasing this property. For YTD 2024, we charged 9143-5271 Québec Inc. $nil (YTD 2023 - $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 2024, we expensed $3,092 (YTD 2023 - $3,425) 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 2024, we expensed $89 (YTD 2023 - $80) for deliveries subcontracted to MCS. We expect to continue subcontracting deliveries to MCS. Similarly, in YTD 2024 we invoiced MCS for $99 (YTD 2023 - $106) for transportation services provided to MCS. For YTD 2024, we charged MCS $nil (YTD 2023 - $12) 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 $nil in services during YTD 2024 (YTD 2023 - $20). We expect to continue to subcontract deliveries to MEL from time to time.

Logiserv Inc.

Logiserv Inc. ("Logiserv") is partially owned by Cameron Joyce, an AHG director. 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 2024, we expensed $14 (YTD 2023 - $nil) for warehouse racking installation, maintenance and repair services provided by Logiserv and we purchased $46 (YTD 2023 - $nil) of warehouse racking. We expect to continue to purchase warehouse racking installation, maintenance and repair services from 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 2024, we purchased $nil (YTD 2023 - $58) 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 2024, we recorded $2,538 (YTD 2023 – $2,426) 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,**	
	2024	**2023**
Accounts receivable		
Andlauer Properties and Leasing Inc.	13	13
1708998 Ontario Limited (Medical Courier Services)	15	37
Trade receivables due from related parties	28	50
Due from related parties		
Andlauer Management Group Inc.	10	65
Andlauer Properties and Leasing Inc.	99	74
Due from related parties	109	139
Total due from related parties	**137**	**189**
Accounts payable and accrued liabilities		
Ready Staffing Solutions Inc.	319	312
1708998 Ontario Limited (Medical Courier Services)	15	-
Logiserv Inc.	60	-
Andlauer Properties and Leasing Inc.	38	253
Andlauer Management Group Inc.	-	32
Trade payables due to related parties	432	597
Due to related parties		
Andlauer Properties and Leasing Inc.	160	104
Due to related parties	160	104
Total due to related parties	**592**	**701**

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, 2023 and 2022. Key estimates and assumptions remain consistent with those disclosed in our consolidated financial statements, except for changes in the estimated useful lives of certain property, plant and equipment as described below.

Effective January 1, 2024, the Company revised the estimated useful lives and related depreciation methods of certain tangible assets reflecting a reassessment of their expected usefulness to the Company, and recent experience related to their economic lives. The changes in estimates have been made on a prospective basis. For the six months ended June 30, 2024, the changes in estimates increased depreciation expense by approximately $0.5 million. The full year impact of the changes in estimates is expected to result in a net reduction of depreciation expense of approximately $0.9 million.

Significant New Accounting Standards

Adopted During the Period

There were no new standards that became effective for periods beginning on or after January 1, 2024 that had a material impact on our unaudited interim condensed consolidated financial statements for YTD 2024.

To be Adopted in Future Periods

On March 13, 2024, the Canadian Sustainability Standards Board ("CSSB") announced the release of its first proposed Canadian Sustainability Disclosure Standards ("CSDS") – CSDS 1 and CSDS 2. The proposed standards generally align with the International Sustainability Standards Board's IFRS S1, General Requirements for Disclosure of Sustainability-related Financial Information, and IFRS S2, Climate-related Disclosures, except that they include Canadian-specific effective dates and transition relief proposals to help with eventual implementation of the standards. The proposed standards are voluntary and are effective January 1, 2025. We will monitor the CSSB standards as they develop to ensure we are prepared to comply with them as they become effective.

During Fiscal 2023, we developed corporate-wide environmental, social and governance ("ESG") performance metrics and disclosures that align with the Sustainable Accounting Standard Board standards (now part of the IFRS Foundation) for our industry, Road Transportation and Logistics, to help us prepare for future ESG disclosures and measure performance improvements from implementing action plans. We also filed our initial report of greenhouse gas emissions for Fiscal 2022 on the CDP portal. We expect to continue to report our climate progress annually to our clients and key stakeholders via the CDP Supply Chain Climate Change disclosures.

We are committed to the well-being of the many communities in which we serve and believe environmentally sustainable and socially responsible business practices and good governance will add value for all stakeholders. Our inaugural Sustainability Report was filed on May 2, 2024 and can be found on our profile on SEDAR+ at www.sedarplus.ca or on our website at www.andlauerhealthcare.com.

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 $25.0 million. The Credit Facilities are available to be drawn in Canadian dollars by way of prime rate loans, CORRA loans, 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, 2024, the aggregate amounts outstanding under the Credit Facilities were $25.0 million under the Term Facility and $40.0 million 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. Our Revolving Credit Facility has been classified as a current liability on our balance sheet as at June 30, 2024 as the Company intends to repay any drawn amounts within 12 months.

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, CORRA loans 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, 2024, the Credit Facilities comprise CORRA loans drawn at an interest rate of 6.5%. There has been no significant impact on our financial condition or results of operations related to interest rates. 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 2024 and as at June 30, 2024 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 June 30, 2024, there were 18,704,628 Subordinate Voting Shares issued and outstanding, 20,807,955 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 844,806 options, each of which can be exercised or settled for one Subordinate Voting Share, 30,170 Restricted Share Units and 63,314 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 52.7% of the issued and outstanding Shares and 81.7% 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 its initial normal course issuer bid (the “2023 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 which commenced on March 29, 2023. In total, we purchased and cancelled a total of 634,090 Subordinate Voting Shares, or approximately 3% of our public float, pursuant to the 2023 NCIB. We funded the purchases, which totaled $25.1 million, out of available cash. The 2023 NCIB terminated on March 28, 2024.

On May 15, 2024, the Company commenced a substantial issuer bid ("SIB") under which the Company offered to purchase for cancellation up to 2,000,000 Subordinate Voting Shares and Multiple Voting Shares (on an as-converted basis) at a price of $45.00 per Share for an aggregate purchase price not exceeding $90,000,000. The offer expired on June 19, 2024 and Subordinate Voting Shares were taken up on June 20, 2024. Andlauer Management Group Inc. participated in the SIB and converted 1,032,045 Multiple Voting Shares to Subordinate Voting Shares, at their book value of $15.00 per Share, which were taken up by the Company pursuant to the SIB. In aggregate, the Company purchased and cancelled 2,000,000 Subordinate Voting Shares for a total consideration of $90.0 million. The Company financed the SIB with $50.0 million of cash on hand and a $40.0 million draw on its Revolving Credit Facility. On June 27, 2024, the Company announced that the TSX had approved its notice of intention to make another normal course issuer bid ("NCIB") for up to a maximum of 1,770,429 of its Subordinate Voting Shares, or approximately 10% of its public float as of June 26, 2024 over the 12-month period commencing on July 2, 2024. The bid will terminate on July 1, 2025, 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 self-imposed blackout periods. As of July 31, 2024, a total of 99,234 Subordinate Voting Shares, comprising approximately 0.5% of the number of Subordinate Voting Shares outstanding, have been purchased and cancelled pursuant to the NCIB at an average price of $38.89 per share, for a total purchase price of approximately $3,859,629.

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 $0.11 per Share on an ongoing basis. Our Q2 2024 dividend, in the amount of $0.10 per Share, was paid on July 15, 2024 to shareholders of record as at June 28, 2024. 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 2024 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.

1400-2190-8493

Unaudited Interim Condensed Consolidated
Financial Statements of

ANDLAUER HEALTHCARE GROUP INC.

For the three and six months ended June 30, 2024 and 2023

Andlauer Healthcare Group Inc.

Interim Condensed Consolidated Balance Sheets

As at June 30, 2024 and December 31, 2023

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

Assets	**Note**	**June 30, 2024**	**December 31, 2023**
Current assets			
Cash and cash equivalents		$ 40,732	$ 59,740
Trade and other receivables		97,578	102,206
Income taxes receivable		4,345	1,230
Inventories		5,834	5,329
Prepaid expenses and other		4,945	6,605
Due from related parties	16	109	1
		153,543	175,111
Non-current assets			
Long-term deposits and other		789	911
Property, plant and equipment	4	166,235	166,200
Goodwill and intangible assets	5	332,027	334,919
Deferred income taxes	12	5,189	5,285
Total Assets		**$ 657,783**	**$ 682,426**
Liabilities and Equity			
Current liabilities			
Revolving credit facility	6	$ 40,000	$ -
Accounts payable and accrued liabilities		43,968	41,795
Current portion of lease liabilities	13	29,524	27,697
		113,492	69,492
Long-term liabilities			
Lease liabilities	13	74,821	75,384
Deferred income taxes	12	40,535	42,955
Due to related parties	16	160	206
Term facility	6	24,779	24,819
Total Liabilities		**253,787**	**212,856**
Equity			
Common share capital	8	679,004	718,790
Contributed surplus	10	6,191	6,308
Accumulated other comprehensive income		22,067	14,194
Merger reserve	2	(488,916)	(488,916)
Retained earnings		185,650	219,194
		403,996	469,570
Commitments and contingencies	15		
Total Liabilities and Equity		**$ 657,783**	**$ 682,426**

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, 2024 and 2023

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

	Note	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Revenue	11	**$ 161,446**	**$ 157,357**	**$ 322,584**	**$ 322,131**
Operating expenses					
Cost of transportation and services		80,855	78,879	163,321	163,058
Direct operating expenses		26,573	26,377	52,846	53,412
Selling, general and administrative expenses		14,241	12,686	27,057	25,796
Depreciation and amortization	4, 5	17,602	16,820	35,942	33,580
		139,271	134,762	279,166	275,846
Operating income		**22,175**	**22,595**	**43,418**	**46,285**
Interest expense	14	(1,709)	(1,909)	(3,288)	(3,842)
Interest income		703	757	1,398	1,356
Other income		304	125	313	144
Income before income taxes		**21,473**	**21,568**	**41,841**	**43,943**
Current income tax expense	12	6,968	7,111	14,480	14,796
Deferred income tax recovery	12	(1,226)	(1,259)	(3,293)	(3,097)
		5,742	5,852	11,187	11,699
Net income		**$ 15,731**	**$ 15,716**	**$ 30,654**	**$ 32,244**
Net earnings per share					
Basic earnings per share	9	**$ 0.38**	**$ 0.37**	**$ 0.74**	**$ 0.77**
Diluted earnings per share	9	**$ 0.38**	**$ 0.37**	**$ 0.73**	**$ 0.76**
Other comprehensive income					
Net income		$ 15,731	$ 15,716	$ 30,654	$ 32,244
Foreign currency translation adjustment		2,336	(5,039)	7,873	(5,239)
Other comprehensive income (loss) for the period		2,336	(5,039)	7,873	(5,239)
Total comprehensive income for the period		**$ 18,067**	**$ 10,677**	**$ 38,527**	**$ 27,005**

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, 2024 and 2023
(In thousands of Canadian dollars, except shares, share price and earnings per share) (unaudited)

	Number of shares (thousands) (note 8)	Share capital (note 8)	Accumulated other compre-hensive income	Merger reserve (note 2)	Contributed surplus (note 10)	Retained earnings	Total equity
Balance at December 31, 2023	41,467	$ 718,790	$ 14,194	$ (488,916)	$ 6,308	$ 219,194	$ 469,570
Net income and comprehensive income for the period	-	-	7,873	-	-	30,654	38,527
Share-based compensation (note 10)	205	2,619	-	-	(117)	-	2,502
Shares repurchased for cancellation (note 8)	(2,159)	(42,405)	-	-	-	(53,876)	(96,281)
Transaction costs (note 8)	-	-	-	-	-	(2,239)	(2,239)
Dividends (note 8)	-	-	-	-	-	(8,083)	(8,083)
Balance at June 30, 2024	**39,513**	**$ 679,004**	**$ 22,067**	**$ (488,916)**	**$ 6,191**	**$ 185,650**	**$ 403,996**
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 10)	8	314	-	-	124	-	438
Dividends (note 8)	-	-	-	-	-	(6,707)	(6,707)
Balance at June 30, 2023	**41,922**	**$ 728,149**	**$ 14,403**	**$ (488,916)**	**$ 5,930**	**$ 202,162**	**$ 461,728**

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, 2024 and 2023
(In thousands of Canadian dollars, except shares, share price and earnings per share) (unaudited)

	Note	June 30, 2024	June 30, 2023
Operating activities			
Net income for the period		$ 30,654	$ 32,244
Changes not involving cash:			
Depreciation and amortization		35,942	33,580
Amortization of capitalized financing costs	6	84	134
Share-based compensation	10	2,502	438
Deferred income tax recovery	12	(3,293)	(3,097)
Gain on derecognition of lease liabilities		(161)	-
(Gain) loss on disposal of property, plant and equipment		(46)	20
		65,682	63,319
Changes in non-cash operating working capital:			
Trade and other receivables		5,132	2,495
Inventories		(492)	(301)
Accounts payable and accrued liabilities		2,006	(4,440)
Income taxes		(3,060)	(7,619)
Net change in other operating working capital balances		1,844	(2,833)
Cash flows from operating activities		**71,112**	**50,621**
Financing activities			
Proceeds from revolving credit facility	6	40,000	-
Capitalized financing costs	6	(124)	-
Dividends	8	(8,083)	(6,707)
Principal repayments on lease liabilities	13	(14,852)	(14,134)
Net change in related party balances		114	(414)
Shares repurchased for cancellation	8	(96,281)	-
Transaction costs recorded in equity	8	(2,239)	-
Cash flows used in financing activities		**(81,465)**	**(21,255)**
Investing activities			
Purchase of property, plant and equipment		(9,581)	(10,431)
Proceeds on disposal of property, plant and equipment		711	944
Purchase of intangible assets	5	(553)	(974)
Cash flows used in investing activities		**(9,423)**	**(10,461)**
Net (decrease) increase in cash and cash equivalents		**(19,776)**	**18,905**
Effect of foreign currency translation on cash and cash equivalents		768	(495)
Cash and cash equivalents, beginning of period		**59,740**	**65,855**
Cash and cash equivalents, end of period		**$ 40,732**	**$ 84,265**

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

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 20.8 million multiple voting shares and 10,200 subordinate voting shares of AHG, representing approximately 52.7% of the issued and outstanding shares and 81.7% 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, 2023 and 2022.

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 except for changes in the estimated useful lives of certain property, plant and equipment as described in note 4.

These consolidated financial statements were authorized for issue by the Board of Directors effective July 31, 2024.

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 Andlauer Healthcare Logistics Inc. (formerly Associated Logistics Solutions Inc.), Credo Canada Systems Inc., Andlauer Specialized Transportation Inc. (formerly 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 (Andlauer Healthcare Logistics Inc., Credo Canada Systems Inc., Andlauer Specialized Transportation 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.

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. During the six months ended June 30, 2024, the Company has restructured and/or renamed certain subsidiaries with no meaningful impact on operations.

(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, 2023, except for changes in the estimated useful lives of certain property, plant and equipment as described in note 4.

(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, 2024 and 2023 and for the three months then ended:

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at June 30, 2024 and for the three months then ended					
Revenue	$ 131,253	$ 44,249	$ 1,558	$ (15,614)	$ 161,446
Segment income before tax	16,633	4,580	260	-	21,473
Interest income	481	239	1,649	(1,666)	703
Interest expense	(1,296)	(335)	(78)	-	(1,709)
Depreciation and amortization	(13,640)	(3,962)	-	-	(17,602)
Segment net income	12,207	3,227	297	-	15,731
Segment total assets	523,319	174,960	618,007	(658,503)	657,783
Additions of ROU assets	11,787	42	-	-	11,829
Capital expenditures	669	934	-	-	1,603
Segment total liabilities	129,479	67,975	45,325	9,008	253,787
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

(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, 2024 and 2023 and for the six months then ended:

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at June 30, 2024 and for the six months then ended					
Revenue	$ 263,381	$ 87,109	$ 2,413	$ (30,319)	$ 322,584
Segment income before tax	33,053	8,521	267	-	41,841
Interest income	914	470	3,346	(3,332)	1,398
Interest expense	(2,516)	(694)	(78)	-	(3,288)
Depreciation and amortization	(27,939)	(8,003)	-	-	(35,942)
Segment net income	24,302	6,219	133	-	30,654
Segment total assets	523,319	174,960	618,007	(658,503)	657,783
Additions of ROU assets	15,947	44	-	-	15,991
Capital expenditures	8,204	1,377	-	-	9,581
Segment total liabilities	129,479	67,975	45,325	9,008	253,787
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

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, 2024 and 2023.

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

4. Property, plant and equipment

Effective January 1, 2024, the Company revised the estimated useful lives and related depreciation methods of certain tangible assets reflecting a reassessment of their expected usefulness to the Company, and recent experience related to their economic lives.

These changes are summarized as follows:

Asset	Depreciation method prior to January 1, 2024	Depreciation method effective January 1, 2024
Furniture and fixtures	20-30% declining balance	7 years straight line
Logistics and transportation equipment	Primarily 20-30% declining balance, except for storage vaults which are amortized straight line over 40 years, and certain transportation equipment which is amortized straight line over periods of 3-7 years	3 to 10 years straight line, except for storage vaults which are amortized straight line over 40 years

The changes in estimates have been made on a prospective basis. For the three and six months ended June 30, 2024, the changes in estimates (decreased)/increased depreciation expense by $(598) and $459 respectively. The full year impact of the changes in estimates is expected to result in a net reduction of depreciation expense of $947.

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, 2023	$ 164,079	$ 9,522	$ 27,044	$ 217,823	$ 418,468
Additions	5,986	165	335	19,086	25,572
Dispositions	-	(3,015)	(179)	(10,806)	(14,000)
Foreign currency adjustments	208	12	90	1,198	1,508
Balance at June 30, 2024	**$ 170,273**	**$ 6,684**	**$ 27,290**	**$ 227,301**	**$ 431,548**
Accumulated depreciation					
Balance at December 31, 2023	$ 101,940	$ 7,593	$ 16,417	$ 126,318	$ 252,268
Depreciation for the period	9,200	437	1,514	14,661	25,812
Dispositions	-	(2,693)	(179)	(10,463)	(13,335)
Foreign currency adjustments	66	2	15	485	568
Balance at June 30, 2024	**$ 111,206**	**$ 5,339**	**$ 17,767**	**$ 131,001**	**$ 265,313**
Net carrying amounts					
At December 31, 2023	**$ 62,139**	**$ 1,929**	**$ 10,627**	**$ 91,505**	**$ 166,200**
At June 30, 2024	**$ 59,067**	**$ 1,345**	**$ 9,523**	**$ 96,300**	**$ 166,235**

[1] Facilities and certain logistics and transportation equipment assets are ROU assets, capitalized in accordance with IFRS 16. Refer to note 13.

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

5. Goodwill and intangible assets

	Goodwill	Customer relationships	Brand	Software	Total
Cost					
Balance at December 31, 2023	$ 190,560	$ 163,824	$ 42,306	$ 11,941	$ 408,631
Additions	-	-	-	553	553
Foreign currency adjustments	3,403	3,255	973	17	7,648
Balance at June 30, 2024	**$ 193,963**	**$ 167,079**	**$ 43,279**	**$ 12,511**	**$ 416,832**
Accumulated amortization					
Balance at December 31, 2023	$ -	$ 57,775	$ 9,795	$ 6,142	$ 73,712
Amortization for the period	-	7,558	2,151	421	10,130
Foreign currency adjustments	-	741	222	-	963
Balance at June 30, 2024	**$ -**	**$ 66,074**	**$ 12,168**	**$ 6,563**	**$ 84,805**
Net carrying amounts					
At December 31, 2023	**$ 190,560**	**$ 106,049**	**$ 32,511**	**$ 5,799**	**$ 334,919**
At June 30, 2024	**$ 193,963**	**$ 101,005**	**$ 31,111**	**$ 5,948**	**$ 332,027**

6. Credit facilities

	June 30, 2024	December 31, 2023
Revolving credit facility	$ 40,000	$ -
Term facility	25,000	25,000
	65,000	25,000
Less: capitalized financing costs	(221)	(181)
Credit facilities	**$ 64,779**	**$ 24,819**

Recorded in the consolidated balance sheets as follows:

	June 30, 2024	December 31, 2023
Revolving credit facility	$ 40,000	$ -
Term facility	24,779	24,819
Credit facilities	**$ 64,779**	**$ 24,819**

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

6. Credit facilities (continued)

The movement in credit facilities from December 31, 2023 is as follows:

		Credit Facilities
Balance at December 31, 2023	$	24,819
Changes from financing cash flows		
Issuance of borrowings – revolving credit facility		40,000
		64,819
Less: capitalized financing costs		(124)
		64,695
Non-cash movements		
Amortization of capitalized financing costs		84
Balance at June 30, 2024	**$**	**64,779**

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 $25,000. The credit facilities will mature and be due and payable on March 1, 2026. There is no repayment schedule for either the revolving credit facility or the term facility, except at maturity. Financing costs of $124, which apply to the credit facilities in aggregate, were capitalized in the term facility during the three months ended June 30, 2024 in connection with an extension of the term by one year and were added to $621 of historical financing costs, which continue to be amortized.

The credit facilities are available to be drawn in Canadian dollars by way of prime rate loans, Canadian overnight repo rate average ("CORRA") loans, letters of credit and, prior to June 28, 2024, bankers' acceptances, 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, 2024, the credit facilities comprise term CORRA loans drawn at an interest rate of 6.5% (December 31, 2023 – bankers' acceptances at an interest rate of 6.9%).

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, 2024 and December 31, 2023, 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, 2024 was $500 and $916, respectively, (2023 – $807 and $1,602, respectively).

7. 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 6). The Company believes that the carrying amount of each of these items is a reasonable approximation of fair value given the short-term nature of the financial instruments.

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

8. 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 June 30, 2024, 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, 2023	21,840	19,627	41,467	$ 327,600	$ 391,190	$ 718,790
Shares issued in connection with the exercise of options (note 10)	-	205	205	-	2,619	2,619
Shares repurchased for cancellation in connection with the Company's normal course issuer bid	-	(159)	(159)	-	(3,176)	(3,176)
Multiple voting shares converted to subordinate voting shares in connection with the Company's substantial issuer bid	(1,032)	1,032	-	(15,481)	15,481	-
Shares repurchased for cancellation in connection with the Company's substantial issuer bid	-	(2,000)	(2,000)	-	(39,229)	(39,229)
Balance at June 30, 2024	**20,808**	**18,705**	**39,513**	**$ 312,119**	**$ 366,885**	**$ 679,004**

8. Share capital (continued)

Normal course issuer bid

On March 29, 2023, the Company commenced a normal course issuer bid (“NCIB”) which terminated on March 28, 2024. For the period from January 1, 2024 to March 28, 2024, a total of 159,350 subordinate voting shares, comprising approximately 0.8% of the number of subordinate voting shares outstanding, were purchased and cancelled pursuant to the NCIB at an average price of $39.42 per share, for a total purchase price of approximately $6,281. The excess of the purchase price paid over the average carrying value of the subordinate voting shares purchased and cancelled, in the amount of $3,105, was recognized as a share repurchase premium and a reduction to retained earnings.

Substantial issuer bid

On May 15, 2024, the Company commenced a substantial issuer bid (“SIB”) under which the Company offered to purchase for cancellation up to 2,000,000 subordinate voting shares of the Company at a price of $45.00 per share for an aggregate purchase price not exceeding $90,000. The offer closed on June 19, 2024. Andlauer Management Group Inc. participated in the SIB and converted 1,032,045 multiple voting shares to subordinate voting shares, at their book value of $15.00 per share, which were taken up in the SIB. In aggregate, the Company purchased and cancelled 2,000,000 shares for total consideration of $90,000. The excess of the purchase price paid over the average carrying value of the subordinate voting shares purchased and cancelled, in the amount of $50,771, was recognized as a share repurchase premium and a reduction to retained earnings. Transaction costs, including federal taxes on share buybacks, of $2,239 have been charged to retained earnings in connection with the SIB.

Dividends to subordinate voting and multiple voting shareholders

During the six months ended June 30, 2024, the Company declared total dividends of $8,083, or $0.20 per common share (June 30, 2023 – $6,707, or $0.16 per common share), on subordinate voting and multiple voting shares. Included in accounts payable and accrued liabilities as at June 30, 2024 is $3,951 (June 30, 2023 – $3,354) for dividends paid on July 15, 2024 and July 17, 2023, to common shareholders of record on June 30, 2024 and 2023 respectively.

9. Earnings per share

Basic earnings per share

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

(in thousands of dollars and number of shares)	**Three Months Ended June 30, 2024**	**Three Months Ended June 30, 2023**	**Six Months Ended June 30, 2024**	**Six Months Ended June 30, 2023**
Net income	$ 15,731	$ 15,716	$ 30,654	$ 32,244
Weighted average number of common shares	41,108	41,916	41,246	41,915
Earnings per share – basic	**$ 0.38**	**$ 0.37**	**$ 0.74**	**$ 0.77**

9. Earnings per share (continued)

Diluted earnings per share

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

(in thousands of dollars and number of shares)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Net income	$ 15,731	$ 15,716	$ 30,654	$ 32,244
Weighted average number of common shares	41,108	41,916	41,246	41,915
Dilutive effects:				
Stock options	557	732	595	731
Restricted share units	30	-	30	-
Deferred share units	60	54	58	53
Weighted average number of diluted common shares	41,755	42,702	41,929	42,699
Earnings per share – diluted	**$ 0.38**	**$ 0.37**	**$ 0.73**	**$ 0.76**

10. Share-based payment arrangements

Stock option plan (equity settled)

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

On December 11, 2019, the Board of Directors approved a grant of 1.65 million options. Of these options, 259 thousand were exercised during the six months ended June 30, 2024 (June 30, 2023 – nil) while 784 thousand remain outstanding and are exercisable. On December 11, 2023, the Board of Directors approved a grant of 63 thousand options which were granted to executive officers and management personnel in connection with its long-term incentive plan. Of these options, 2 thousand were forfeited during the six months ended June 30, 2024 (June 30, 2023 - nil).

Of the options outstanding at June 30, 2024, a total of 535 thousand (December 31, 2023 – 635 thousand) are held by non-executive directors; 154 thousand (December 31, 2023 – 223 thousand) are held by executive officers; with the remaining 156 thousand (December 31, 2023 – 248 thousand) held by management personnel.

10. Share-based payment arrangements (continued)

Stock option plan (equity-settled) (continued)

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

	June 30, 2024		June 30, 2023	
(in thousands of options and in dollars)	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	1,106	$ 16.41	1,074	$ 15.00
Exercised	(259)	15.00	-	-
Forfeited	(2)	$ 39.73	-	-
Ending balance	845	$ 16.79	1,074	$ 15.00
Options exercisable	**784**	**$ 15.00**	**780**	**$ 15.00**

The table below summarizes stock options outstanding and exercisable at June 30, 2024:

(in thousands of options and in dollars)	Options Outstanding		Options Exercisable
Exercise price	**Number of options**	**Weighted average remaining contractual life (in years)**	**Number of options**
$ 15.00	784	5.45	784
39.73	61	9.45	-
	845	**5.74**	**784**

The Company recognized compensation expense of $114 and $228 for the three and six months ended June 30, 2024 (June 30, 2023 – $69 and $139 respectively), with corresponding increases to contributed surplus in connection with the vesting of options.

During the six months ended June 30, 2024, 259 thousand options were exercised (113 thousand on a cash basis and 146 thousand on a cashless basis) resulting in 205 thousand subordinate voting common shares being issued from treasury and in the surrender of 54 thousand options used to fund the cashless option exercise. The volume weighted average price used to calculate the cashless exercises in accordance with the Company's Omnibus Equity Incentive Plan was $39.54 per share at the time of exercise resulting in a $2,619 net increase in share capital. When options are exercised, the option value that was originally recognized is transferred from contributed surplus to share capital. The transfer of the option value of the options exercised resulted in a $932 reduction to contributed surplus at $3.60 per share.

Restricted share units ("RSUs") program (equity settled)

On December 11, 2023, the Board of Directors approved a grant of 30 thousand RSUs which were granted to executive officers and management personnel in connection with its long-term incentive plan. The fair value of the RSUs is determined to be the share price fair value at the date of the grant. The RSUs vest in equal installments over four years and the expense is recognized as a share-based compensation expense, through contributed surplus over the vesting period. The fair value of the RSUs granted was $39.95 per unit. For the three and six months ended June 30, 2024 the Company recognized a compensation expense of $155 and $311 respectively, with a corresponding increase to contributed surplus (June 30, 2023 – $nil and $nil respectively).

10. Share-based payment arrangements (continued)

Restricted share units ("RSUs") program (equity settled) (continued)

The table below summarizes the changes in the outstanding RSUs:

	June 30, 2024	
(in thousands of RSUs and in dollars)	**Number of RSUs**	**Weighted average grant date fair value**
Opening balance	30	$ 39.95
Ending balance	30	$ 39.95
RSUs exercisable	**-**	**$ 39.95**

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, 2024, the Company recognized a compensation expense of $138 and $276, with corresponding increases to contributed surplus (June 30, 2023 – $144 and $299 respectively).

The table below summarizes the changes in the outstanding DSUs:

(thousands of DSUs)	**June 30, 2024**	**June 30, 2023**
Opening balance	57	51
Granted	7	6
Settled	-	(8)
Ending balance	**64**	**49**

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

11. 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.

Major products/service lines	**Three Months Ended June 30, 2024**	**Three Months Ended June 30, 2023**	**Six Months Ended June 30, 2024**	**Six Months Ended June 30, 2023**
Logistics and distribution	$ 39,463	$ 39,438	$ 77,381	$ 79,961
Packaging solutions	4,786	4,236	9,728	9,746
Healthcare Logistics segment	**44,249**	**43,674**	**87,109**	**89,707**
Ground transportation	105,006	103,451	211,394	211,711
Air freight forwarding	7,918	7,678	15,913	15,220
Dedicated and last mile delivery	18,329	16,339	36,074	33,470
Intersegment revenue	(14,056)	(13,785)	(27,906)	(27,977)
Specialized Transportation segment	**117,197**	**113,683**	**235,475**	**232,424**
Total revenue	**$ 161,446**	**$ 157,357**	**$ 322,584**	**$ 322,131**

Primary geographical markets	**Three Months Ended June 30, 2024**	**Three Months Ended June 30, 2023**	**Six Months Ended June 30, 2024**	**Six Months Ended June 30, 2023**
Canada	$ 133,475	$ 125,094	$ 265,211	$ 256,140
United States	27,971	32,263	57,373	65,991
Total revenue	**$ 161,446**	**$ 157,357**	**$ 322,584**	**$ 322,131**

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

12. Income taxes

a) **Amounts recognized in income or loss**

	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Current income tax expense:				
Current taxes on income for the reporting period	$ 6,920	$ 7,237	$ 14,136	$ 14,922
Current taxes relating to previous periods and other adjustments	48	(126)	344	(126)
	6,968	7,111	14,480	14,796
Deferred income tax recovery:				
(Recognition) utilization of tax benefits related to loss for the period	(225)	240	(243)	70
Origination and reversal of temporary differences	(914)	(1,659)	(2,675)	(3,327)
Deferred taxes relating to previous years and other adjustments	(87)	160	(375)	160
	(1,226)	(1,259)	(3,293)	(3,097)
Income tax expense reported to the statements of income and comprehensive income	**$ 5,742**	**$ 5,852**	**$ 11,187**	**$ 11,699**

Total cash outflow for actual taxes paid for the three and six months ended June 30, 2024 was $7,360 and $17,484 respectively (June 30, 2023 – $13,254 and $22,162 respectively).

b) **Reconciliation of effective tax rate**

	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Income before income taxes	$ 21,473	$ 21,568	$ 41,841	$ 43,943
Consolidated Canadian federal and provincial income tax rate	26.5%	26.5%	26.5%	26.5%
Income tax expense based on statutory rate	5,690	5,716	11,088	11,645
Increase in income taxes resulting from non-deductible items or other adjustments	91	102	130	20
Taxes relating to previous years and other adjustments	(39)	34	(31)	34
Total income tax expense	**$ 5,742**	**$ 5,852**	**$ 11,187**	**$ 11,699**

c) **Deferred taxes**

	June 30, 2024	December 31, 2023
Deferred tax assets	$ 5,189	$ 5,285
Deferred tax liabilities	(40,535)	(42,955)
Net deferred tax liability	**$ (35,346)**	**$ (37,670)**

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

12. Income taxes (continued)

d) **Movement in deferred tax balances**

	June 30, 2024	Recognized in income or loss	Foreign currency adjustments	December 31, 2023
Plant and equipment	$ (11,818)	$ 1,167	$ (198)	$ (12,787)
Accounts payable and accrued liabilities	1,118	248	2	868
Intangibles	(31,831)	2,564	(815)	(33,580)
Benefit of losses carried forward	2,847	316	-	2,531
Leases	3,650	(470)	41	4,079
Transaction costs	688	(532)	1	1,219
Net deferred tax liability	**$ (35,346)**	**$ 3,293**	**$ (969)**	**$ (37,670)**

	December 31, 2023	Recognized in income or loss	Foreign currency adjustments	June 30, 2023
Plant and equipment	$ (12,787)	$ (636)	$ (2)	$ (12,149)
Accounts payable and accrued liabilities	868	77	-	791
Intangibles	(33,580)	2,329	(4)	(35,905)
Benefit of losses carried forward	2,531	(182)	-	2,713
Leases	4,079	264	-	3,815
Transaction costs	1,219	(520)	-	1,739
Net deferred tax liability	**$ (37,670)**	**$ 1,332**	**$ (6)**	**$ (38,996)**

	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	**$ (38,996)**	**$ 3,097**	**$ 707**	**$ (42,800)**

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

12. Income taxes (continued)

e) **Unrecognized deferred tax liabilities**

As at June 30, 2024, temporary differences of $40,390 (December 31, 2023 – $40,390) exist in connection with wholly-owned investments in subsidiaries; and the related potential deferred tax liability of $5,352 (December 31, 2023 – $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.

f) **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 $10,436 that begin to expire in 2039.

g) **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.

13. 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 six months ended June 30, 2024 is 5.68% (year ended December 31, 2023 – 5.76%). 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, 2024 is 5.75% for Specialized Transportation and 7.27% for Healthcare Logistics (year ended December 31, 2023 – 5.94% for Specialized Transportation; 5.74% for Healthcare Logistics).

Right-of-use assets – Facilities	**As at and for the six months ended June 30, 2024**	**As at and for the year ended December 31, 2023**
Opening balance	$ 62,141	$ 77,701
Add: additions	5,986	2,477
Less: depreciation	(9,200)	(17,934)
Foreign currency adjustments	143	(103)
Ending balance	**$ 59,070**	**$ 62,141**

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

13. Leases (continued)

Right-of-use assets – Logistics and transportation equipment	**As at and for the six months ended June 30, 2024**	**As at and for the year ended December 31, 2023**
Opening balance	$ 35,629	$ 32,333
Add: additions	10,005	15,010
Less: derecognition of ROU assets	(161)	-
Less: depreciation	(6,826)	(11,691)
Foreign currency adjustments	92	(23)
Ending balance	**$ 38,739**	**$ 35,629**

Net carrying amounts of right-of-use assets included in property, plant and equipment	**June 30, 2024**	**December 31, 2023**
Facilities	$ 59,070	$ 62,141
Logistics and transportation equipment	38,739	35,629
Balance	**$ 97,809**	**$ 97,770**

Lease liabilities – Facilities	**As at and for the six months ended June 30, 2024**	**As at and for the year ended December 31, 2023**
Opening balance	$ 71,501	$ 86,925
Add: additions	5,986	2,477
Add: interest expense	1,502	3,085
Less: principal repayments	(9,304)	(17,794)
Less: interest payments	(1,502)	(3,085)
Foreign currency adjustments	149	(107)
Ending balance	**$ 68,332**	**$ 71,501**

Lease liabilities – Logistics and transportation equipment	**As at and for the six months ended June 30, 2024**	**As at and for the year ended December 31, 2023**
Opening balance	$ 31,580	$ 26,804
Add: additions	10,005	15,010
Add: interest expense	870	1,321
Less: derecognition of ROU assets	(161)	-
Less: principal repayments	(5,548)	(10,158)
Less: interest payments	(870)	(1,321)
Foreign currency adjustments	137	(76)
Ending balance	**$ 36,013**	**$ 31,580**

Cash lease principal payments	**Six months ended June 30, 2024**	**Year ended December 31, 2023**
Repayments of lease principal	$ (14,852)	$ (27,952)
Total lease payments	**$ (14,852)**	**$ (27,952)**

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

13. Leases (continued)

Lease liabilities	**June 30, 2024**	**December 31, 2023**
Facilities	$ (68,332)	$ (71,501)
Logistics and transportation equipment	(36,013)	(31,580)
Balance	**$ (104,345)**	**$ (103,081)**

Lease liabilities included in consolidated balance sheets	**June 30, 2024**	**December 31, 2023**
Current	$ (29,524)	$ (27,697)
Non-current	(74,821)	(75,384)
Balance	**$ (104,345)**	**$ (103,081)**

Maturity analysis for lease liabilities – contractual undiscounted cash flows	**June 30, 2024**	**December 31, 2023**
Less than one year	$ 33,687	$ 32,285
One to 5 years	77,669	76,377
More than 5 years	3,762	5,636
Total undiscounted lease liabilities	**$ 115,118**	**$ 114,298**

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, 2024 was $1,209 and $2,372 respectively (June 30, 2023 – $1,102 and $2,240 respectively). Total cash outflow for leases for the three and six months ended June 30, 2024 was $8,877 and $17,224 respectively (June 30, 2023 – $8,065 and $16,374 respectively).

14. Interest expense

Interest expense recognized in income and comprehensive income	**Three months ended June 30, 2024**	**Three months ended June 30, 2023**	**Six months ended June 30, 2024**	**Six months ended June 30, 2023**
Leases	$ 1,209	$ 1,102	$ 2,372	$ 2,240
Credit facilities	500	807	916	1,602
Total interest expense	**$ 1,709**	**$ 1,909**	**$ 3,288**	**$ 3,842**

Interest expense recognized in the consolidated statements of income and comprehensive income equates to total interest paid for the periods ended June 30, 2024 and 2023.

15. Commitments and contingencies

a) The Company is, from time to time, involved in claims, legal proceedings and complaints arising in the normal course of business and provisions for such claims have been recorded where appropriate. The Company does not believe the final determination of these claims will have an adverse material effect on its consolidated financial statements.

b) As at June 30, 2024, the Company had outstanding letters of guarantee in the amount of $393 (December 31, 2023 – $365).

c) The Company has made commitments to lease fleet equipment, with the terms to begin upon delivery of the equipment. Commitments range from 72 to 84 months and total $15,393 (December 31, 2023 – $12,926).

d) The Company has made commitments to purchase fleet equipment totalling approximately $1,629 (December 31, 2023 – $4,848).

16. 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.

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

16. Related parties (continued)

	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Revenue				
Transportation services				
1708998 Ontario Limited (Medical Courier Services)	$ 48	$ 50	$ 99	$ 106
Shared service recovery				
Andlauer Properties and Leasing Inc.	-	5	-	10
Andlauer Management Group Inc.	-	4	-	8
9143-5271 Quebec Inc.	-	8	-	16
1708998 Ontario Limited (Medical Courier Services)	-	6	-	12
Expenses				
Transportation services				
1708998 Ontario Limited (Medical Courier Services)	37	36	89	80
Med Express Ltd.	-	10	-	20
Contract labour services				
Ready Staffing Solutions Inc.	1,545	1,732	3,092	3,425
Equipment rent				
Andlauer Properties and Leasing Inc.	542	527	1,183	1,027
Facility rent				
Andlauer Properties and Leasing Inc.	569	601	1,116	1,189
9143-5271 Quebec Inc.	387	387	774	770
Maintenance services				
Logiserv Inc.	14	-	14	-
Travel services				
C-GHBS Inc.	-	58	-	58
Capital Expenditures				
Purchases of logistics and transportation equipment				
Logiserv Inc.	46	-	46	-

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

16. Related parties (continued)

	June 30, 2024	December 31, 2023
Trade receivables due from related parties		
Andlauer Properties and Leasing Inc.	$ 13	$ 13
1708998 Ontario Limited (Medical Courier Services)	15	41
	28	54
Due from related parties		
Andlauer Management Group Inc.	10	1
Andlauer Properties and Leasing Inc.	99	-
	109	1
Total due from related parties	**$ 137**	**$ 55**

	June 30, 2024	December 31, 2023
Trade payables due to related parties		
Ready Staffing Solutions Inc.	$ 319	$ 150
1708998 Ontario Limited (Medical Courier Services)	15	13
Andlauer Properties and Leasing Inc.	38	287
Logiserv Inc.	60	-
	432	450
Due to related parties		
Andlauer Properties and Leasing Inc.	160	206
Total due to related parties	**$ 592**	**$ 656**

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 for the three and six month periods ended:

Key management compensation	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Salaries and benefits	$ 1,011	$ 1,016	$ 2,022	$ 2,031
Share-based payment arrangements	120	44	240	88
Director deferred share units	138	152	276	307
Total key management compensation	**$ 1,269**	**$ 1,212**	**$ 2,538**	**$ 2,426**

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

17. 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, 2024	December 31, 2023
Total lease liabilities	$ 104,345	$ 103,081
Term facility	64,779	24,819
Less: cash and cash equivalents	(40,732)	(59,740)
Net debt	128,392	68,160
Last twelve months' net income	64,550	66,140
Last twelve months' interest income	(3,212)	(3,170)
Last twelve months' interest expense	7,653	8,207
Last twelve months' income tax expense	23,955	24,467
Last twelve months' depreciation and amortization	70,511	68,149
EBITDA	163,457	163,793
Net leverage ratio	0.79	0.42

18. Subsequent event

On July 2, 2024, the Company commenced a NCIB for up to a maximum of 1,770,429 of its subordinate voting shares, or approximately 10% of its public float as of June 26, 2024 over the 12-month period concluding on July 1, 2025, 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 self-imposed blackout periods. As of July 31, 2024, a total of 99,234 subordinate voting shares, comprising approximately 0.5% of the number of subordinate voting shares outstanding, have been purchased and cancelled pursuant to the NCIB at an average price of $38.89 per share, for a total purchase price of approximately $3,860.