



Unaudited Interim Condensed Consolidated
Financial Statements of

**ANDLAUER HEALTHCARE
GROUP INC.**

For the three and nine months ended September 30, 2024 and 2023

Andlauer Healthcare Group Inc.
Interim Condensed Consolidated Balance Sheets

As at September 30, 2024 and December 31, 2023

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

Assets	Note	September 30, 2024	December 31, 2023
Current assets			
Cash and cash equivalents		\$ 35,994	\$ 59,740
Trade and other receivables		102,566	102,206
Income taxes receivable		2,969	1,230
Inventories		5,072	5,329
Prepaid expenses and other		7,356	6,605
Due from related parties	16	12	1
		<u>153,969</u>	<u>175,111</u>
Non-current assets			
Long-term deposits and other		664	911
Property, plant and equipment	4	164,969	166,200
Goodwill and intangible assets	5	325,373	334,919
Deferred income taxes	12	4,944	5,285
		<u>495,950</u>	<u>642,515</u>
Total Assets		<u>\$ 649,919</u>	<u>\$ 682,426</u>
Liabilities and Equity			
Current liabilities			
Revolving credit facility	6	\$ 30,000	\$ -
Accounts payable and accrued liabilities		47,105	41,795
Current portion of lease liabilities	13	29,838	27,697
		<u>106,943</u>	<u>69,492</u>
Long-term liabilities			
Lease liabilities	13	74,298	75,384
Deferred income taxes	12	39,005	42,955
Due to related parties	16	412	206
Term facility	6	24,837	24,819
		<u>138,552</u>	<u>143,364</u>
Total Liabilities		<u>245,495</u>	<u>212,856</u>
Equity			
Common share capital	8	674,678	718,790
Contributed surplus	10	6,602	6,308
Accumulated other comprehensive income		18,897	14,194
Merger reserve	2	(488,916)	(488,916)
Retained earnings		193,163	219,194
		<u>404,424</u>	<u>469,570</u>
Commitments and contingencies	15		
Total Liabilities and Equity		<u>\$ 649,919</u>	<u>\$ 682,426</u>

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 nine months ended September 30, 2024 and 2023

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

	Note	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Revenue	11	\$ 159,600	\$ 156,754	\$ 482,184	\$ 478,885
Operating expenses					
Cost of transportation and services		79,717	79,645	243,038	242,703
Direct operating expenses		25,283	25,334	78,129	78,746
Selling, general and administrative expenses		13,423	12,803	40,480	38,599
Depreciation and amortization	4, 5	17,371	17,248	53,313	50,828
		<u>135,794</u>	<u>135,030</u>	<u>414,960</u>	<u>410,876</u>
Operating income		23,806	21,724	67,224	68,009
Interest expense	14	(2,186)	(1,889)	(5,474)	(5,731)
Interest income		494	1,044	1,892	2,400
Other income		143	39	456	183
		<u>22,257</u>	<u>20,918</u>	<u>64,098</u>	<u>64,861</u>
Income before income taxes		22,257	20,918	64,098	64,861
Current income tax expense	12	6,889	6,266	21,369	21,062
Deferred income tax recovery	12	(918)	(683)	(4,211)	(3,780)
		<u>5,971</u>	<u>5,583</u>	<u>17,158</u>	<u>17,282</u>
Net income		\$ 16,286	\$ 15,335	\$ 46,940	\$ 47,579
Net earnings per share					
Basic earnings per share	9	\$ 0.41	\$ 0.37	\$ 1.16	\$ 1.14
Diluted earnings per share	9	\$ 0.41	\$ 0.36	\$ 1.14	\$ 1.11
Other comprehensive income					
Net income		\$ 16,286	\$ 15,335	\$ 46,940	\$ 47,579
Foreign currency translation adjustment		(3,170)	4,812	4,703	(427)
Other comprehensive income (loss) for the period		<u>(3,170)</u>	<u>4,812</u>	<u>4,703</u>	<u>(427)</u>
Total comprehensive income for the period		\$ 13,116	\$ 20,147	\$ 51,643	\$ 47,152

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 nine months ended September 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	-	-	4,703	-	-	46,940	51,643
Share-based compensation (note 10)	205	2,619	-	-	294	-	2,913
Shares repurchased for cancellation (note 8)	(2,380)	(46,731)	-	-	-	(58,153)	(104,884)
Transaction costs (note 8)	-	-	-	-	-	(2,413)	(2,413)
Dividends (note 8)	-	-	-	-	-	(12,405)	(12,405)
Balance at September 30, 2024	39,292	\$ 674,678	\$ 18,897	\$ (488,916)	\$ 6,602	\$ 193,163	\$ 404,424
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	-	-	(427)	-	-	47,579	47,152
Share-based compensation (note 10)	8	314	-	-	331	-	645
Shares repurchased for cancellation (note 8)	(108)	(2,149)	-	-	-	(2,247)	(4,396)
Dividends (note 8)	-	-	-	-	-	(10,470)	(10,470)
Balance at September 30, 2023	41,814	\$ 726,000	\$ 19,215	\$ (488,916)	\$ 6,137	\$ 211,487	\$ 473,923

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

Andlauer Healthcare Group Inc.
Interim Condensed Consolidated Statements of Cash Flow
For the nine months ended September 30, 2024 and 2023

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

	Note	September 30, 2024	September 30, 2023
Operating activities			
Net income for the period		\$ 46,940	\$ 47,579
Changes not involving cash:			
Depreciation and amortization		53,313	50,828
Amortization of capitalized financing costs	6	142	201
Share-based compensation	10	2,913	645
Deferred income tax recovery	12	(4,211)	(3,780)
Gain on derecognition of lease liabilities	13	(164)	-
(Gain) loss on disposal of property, plant and equipment		(271)	26
		<u>98,662</u>	<u>95,499</u>
Changes in non-cash operating working capital:			
Trade and other receivables		(169)	(1,016)
Inventories		262	(1,016)
Accounts payable and accrued liabilities		5,237	2,961
Income taxes		(1,736)	(12,346)
Net change in other operating working capital balances		(479)	(4,827)
Cash flows from operating activities		<u>101,777</u>	<u>79,255</u>
Financing activities			
Proceeds from revolving credit facility	6	40,000	-
Repayment of revolving credit facility	6	(10,000)	-
Repayment of term facility	6	-	(25,000)
Capitalized financing costs	6	(124)	-
Dividends	8	(12,405)	(10,470)
Principal repayments on lease liabilities	13	(22,720)	(20,849)
Net change in related party balances		294	(204)
Shares repurchased for cancellation	8	(104,884)	(4,396)
Transaction costs recorded in equity	8	(2,413)	-
Cash flows used in financing activities		<u>(112,252)</u>	<u>(60,919)</u>
Investing activities			
Purchase of property, plant and equipment		(13,745)	(15,893)
Proceeds on disposal of property, plant and equipment		1,496	1,242
Purchase of intangible assets	5	(1,628)	(1,256)
Cash flows used in investing activities		<u>(13,877)</u>	<u>(15,907)</u>
Net (decrease) increase in cash and cash equivalents		<u>(24,352)</u>	<u>2,429</u>
Effect of foreign currency translation on cash and cash equivalents		606	1
Cash and cash equivalents, beginning of period		<u>59,740</u>	<u>65,855</u>
Cash and cash equivalents, end of period		<u>\$ 35,994</u>	<u>\$ 68,285</u>

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

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

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

1. Reporting entity

Andlauer Healthcare Group Inc. (“AHG”, or the “Company”) was incorporated under the Ontario Business Corporations Act with its head office located at 100 Vaughan Valley Blvd. in Woodbridge, Ontario. AHG’s subordinate voting shares are listed on the Toronto Stock Exchange under the stock symbol “AND”. AHG specializes in third party logistics and transportation solutions for the healthcare sector in Canada and the United States.

In addition to the shares issued to the public, Andlauer Management Group Inc. (“AMG”) holds 20.8 million multiple voting shares and 10,200 subordinate voting shares of AHG, representing approximately 53.0% of the issued and outstanding shares and 81.8% of the voting power attached to all of the shares. AMG is owned and controlled by Michael Andlauer, Chief Executive Officer, Chief Operating Decision Maker (“CODM”), and a director of AHG.

2. Basis of presentation

a) Statement of compliance

These unaudited interim condensed consolidated financial statements (“consolidated financial statements”) have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”). Under International Financial Reporting Standards (“IFRS”), additional disclosures are required in the annual financial statements and therefore, these consolidated financial statements and accompanying notes should be read in conjunction with the notes to the Company’s audited consolidated financial statements for the years ended December 31, 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 November 5, 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.

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

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

2. Basis of presentation (continued)

c) Basis of consolidation

(i) Business combinations

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

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

(ii) Subsidiaries

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

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

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

3. Segment reporting

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

The Company evaluates performance based on the various financial measures of its operating segments. Performance is measured based on segment income or loss before tax. This measure is included in the internal management reports that are reviewed by the Company's CEO and refers to "Income before income taxes" in the consolidated statements of income and comprehensive income. Segment income or loss before tax is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within the same industries.

The following table identifies selected financial data as at September 30, 2024 and 2023 and for the three months then ended:

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at September 30, 2024 and for the three months then ended					
Revenue	\$ 130,857	\$ 44,071	\$ 1,684	\$ (17,012)	\$ 159,600
Segment income before tax	16,528	5,200	529	-	22,257
Interest income	230	156	1,718	(1,610)	494
Interest expense	(1,307)	(311)	(568)	-	(2,186)
Depreciation and amortization	(13,443)	(3,928)	-	-	(17,371)
Segment net income	12,141	3,788	357	-	16,286
Segment total assets	518,713	178,294	596,298	(643,386)	649,919
Additions of ROU assets	7,634	155	-	-	7,789
Capital expenditures	4,039	125	-	-	4,164
Segment total liabilities	115,909	67,519	37,946	24,121	245,495
As at September 30, 2023 and for the three months then ended					
Revenue	\$ 128,245	\$ 42,102	\$ 1,782	\$ (15,375)	\$ 156,754
Segment income before tax	15,032	4,794	1,092	-	20,918
Interest income	734	267	1,714	(1,671)	1,044
Interest expense	(2,768)	(504)	(286)	1,669	(1,889)
Depreciation and amortization	(13,404)	(3,844)	-	-	(17,248)
Segment net income	11,022	3,529	784	-	15,335
Segment total assets	541,204	176,573	697,783	(717,477)	698,083
Additions of ROU assets	5,007	10	-	-	5,017
Capital expenditures	4,634	828	-	-	5,462
Segment total liabilities	188,903	79,231	5,996	(49,970)	224,160

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

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

3. Segment Reporting (continued)

The following table identifies selected financial data as at September 30, 2024 and 2023 and for the nine months then ended:

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at September 30, 2024 and for the nine months then ended					
Revenue	\$ 394,238	\$ 131,180	\$ 4,097	\$ (47,331)	\$ 482,184
Segment income before tax	49,581	13,721	796	-	64,098
Interest income	1,144	626	5,064	(4,942)	1,892
Interest expense	(3,823)	(1,005)	(646)	-	(5,474)
Depreciation and amortization	(41,382)	(11,931)	-	-	(53,313)
Segment net income	36,443	10,007	490	-	46,940
Segment total assets	518,713	178,294	596,298	(643,386)	649,919
Additions of ROU assets	23,581	199	-	-	23,780
Capital expenditures	12,243	1,502	-	-	13,745
Segment total liabilities	115,909	67,519	37,946	24,121	245,495
As at September 30, 2023 and for the nine months then ended					
Revenue	\$ 388,646	\$ 131,809	\$ 5,350	\$ (46,920)	\$ 478,885
Segment income before tax	47,027	14,658	3,176	-	64,861
Interest income	864	532	4,950	(3,946)	2,400
Interest expense	(7,169)	(1,435)	(1,071)	3,944	(5,731)
Depreciation and amortization	(39,392)	(11,436)	-	-	(50,828)
Segment net income	34,609	10,692	2,278	-	47,579
Segment total assets	541,204	176,573	697,783	(717,477)	698,083
Additions of ROU assets	11,622	263	-	-	11,885
Capital expenditures	12,799	3,094	-	-	15,893
Segment total liabilities	188,903	79,231	5,996	(49,970)	224,160

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

The Company does not have any customers that individually represent more than 10% of revenue for the periods ended September 30, 2024 and 2023.

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 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 nine months ended September 30, 2024, the changes in estimates decreased depreciation expense by \$577 and \$118, 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	6,051	271	1,293	29,910	37,525
Dispositions	-	(3,015)	(1,007)	(11,806)	(15,828)
Foreign currency adjustments	123	7	54	662	846
Balance at September 30, 2024	\$ 170,253	\$ 6,785	\$ 27,384	\$ 236,589	\$ 441,011
Accumulated depreciation					
Balance at December 31, 2023	\$ 101,940	\$ 7,593	\$ 16,417	\$ 126,318	\$ 252,268
Depreciation for the period	13,865	514	3,108	20,598	38,085
Dispositions	-	(2,693)	(975)	(10,935)	(14,603)
Foreign currency adjustments	32	1	4	255	292
Balance at September 30, 2024	\$ 115,837	\$ 5,415	\$ 18,554	\$ 136,236	\$ 276,042
Net carrying amounts					
At December 31, 2023	\$ 62,139	\$ 1,929	\$ 10,627	\$ 91,505	\$ 166,200
At September 30, 2024	\$ 54,416	\$ 1,370	\$ 8,830	\$ 100,353	\$ 164,969

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

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

(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	-	-	-	1,628	1,628
Foreign currency adjustments	2,015	1,927	576	6	4,524
Balance at September 30, 2024	\$ 192,575	\$ 165,751	\$ 42,882	\$ 13,575	\$ 414,783
Accumulated amortization					
Balance at December 31, 2023	\$ -	\$ 57,775	\$ 9,795	\$ 6,142	\$ 73,712
Amortization for the period	-	11,347	3,230	651	15,228
Foreign currency adjustments	-	362	108	-	470
Balance at September 30, 2024	\$ -	\$ 69,484	\$ 13,133	\$ 6,793	\$ 89,410
Net carrying amounts					
At December 31, 2023	\$ 190,560	\$ 106,049	\$ 32,511	\$ 5,799	\$ 334,919
At September 30, 2024	\$ 192,575	\$ 96,267	\$ 29,749	\$ 6,782	\$ 325,373

6. Credit facilities

	September 30, 2024	December 31, 2023
Revolving credit facility	\$ 30,000	\$ -
Term facility	25,000	25,000
	55,000	25,000
Less: capitalized financing costs	(163)	(181)
Credit facilities	\$ 54,837	\$ 24,819

Recorded in the consolidated balance sheets as follows:

	September 30, 2024	December 31, 2023
Revolving credit facility	\$ 30,000	\$ -
Term facility	24,837	24,819
Credit facilities	\$ 54,837	\$ 24,819

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

(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
Repayment of revolving credit facility	(10,000)
	54,695
Non-cash movements	
Amortization of capitalized financing costs	142
Balance at September 30, 2024	\$ 54,837

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 nine months ended September 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 September 30, 2024, the credit facilities comprise term CORRA loans drawn at an interest rate of 6.1% (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 September 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 nine months ended September 30, 2024 was \$960 and \$1,876, respectively, (2023 – \$802 and \$2,404, respectively).

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

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

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 September 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 (2023)	-	(159)	(159)	-	(3,176)	(3,176)
Shares repurchased for cancellation in connection with the Company's normal course issuer bid (2024)	-	(221)	(221)	-	(4,326)	(4,326)
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 September 30, 2024	20,808	18,484	39,292	\$ 312,119	\$ 362,559	\$ 674,678

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

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

8. Share capital (continued)

Normal course issuer bid (2023)

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.

Normal course issuer bid (2024)

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 September 30, 2024, a total of 220,534 subordinate voting shares, comprising approximately 1.2% of the number of subordinate voting shares outstanding, have been purchased and cancelled pursuant to the NCIB at an average price of \$39.01 per share, for a total purchase price of approximately \$8,603. The excess of the purchase price paid over the average carrying value of the subordinate voting shares purchased and cancelled, in the amount of \$4,277, was recognized as a share repurchase premium and a reduction to retained earnings. Transaction costs of \$174 have been charged to retained earnings in connection with the NCIB.

Dividends to subordinate voting and multiple voting shareholders

During the nine months ended September 30, 2024, the Company declared total dividends of \$12,405, or \$0.31 per common share (September 30, 2023 – \$10,470, or \$0.25 per common share), on subordinate voting and multiple voting shares. Included in accounts payable and accrued liabilities as at September 30, 2024 is \$4,322 (September 30, 2023 – \$3,763) for dividends paid on October 15, 2024 and October 16, 2023, to common shareholders of record on September 27, 2024 and September 30, 2023, respectively.

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

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

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 September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Net income	\$ 16,286	\$ 15,335	\$ 46,940	\$ 47,579
Weighted average number of common shares	39,390	41,883	40,623	41,904
Earnings per share – basic	\$ 0.41	\$ 0.37	\$ 1.16	\$ 1.14

Diluted earnings per share

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

(in thousands of dollars and number of shares)	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Net income	\$ 16,286	\$ 15,335	\$ 46,940	\$ 47,579
Weighted average number of common shares	39,390	41,883	40,623	41,904
Dilutive effects:				
Stock options	472	691	552	719
Restricted share units	30	-	30	-
Deferred share units	63	57	60	54
Weighted average number of diluted common shares	39,955	42,631	41,265	42,677
Earnings per share – diluted	\$ 0.41	\$ 0.36	\$ 1.14	\$ 1.11

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

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

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 nine months ended September 30, 2024 (September 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, 3 thousand were forfeited during the nine months ended September 30, 2024 (September 30, 2023 - nil).

Of the options outstanding at September 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 155 thousand (December 31, 2023 – 248 thousand) held by management personnel.

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

(in thousands of options and in dollars)	<u>September 30, 2024</u>		<u>September 30, 2023</u>	
	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	(3)	39.73	-	-
Ending balance	844	\$ 16.76	1,074	\$ 15.00
Options exercisable	784	\$ 15.00	780	\$ 15.00

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

(in thousands of options and in dollars)	<u>Options Outstanding</u>		<u>Options Exercisable</u>
	Number of options	Weighted average remaining contractual life (in years)	Number of options
Exercise price			
\$ 15.00	784	5.20	784
39.73	60	9.20	-
	844	5.48	784

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

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

10. Share-based payment arrangements (continued)

Stock option plan (equity-settled) (continued)

The Company recognized compensation expense of \$115 and \$343 for the three and nine months ended September 30, 2024 (September 30, 2023 – \$69 and \$208 respectively), with corresponding increases to contributed surplus in connection with the vesting of options.

During the nine months ended September 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 nine months ended September 30, 2024 the Company recognized a compensation expense of \$158 and \$469 respectively, with a corresponding increase to contributed surplus (September 30, 2023 – \$nil and \$nil respectively).

The table below summarizes the changes in the outstanding RSUs:

(in thousands of RSUs and in dollars)	September 30, 2024	
	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 nine months ended September 30, 2024, the Company recognized a compensation expense of \$138 and \$414, with corresponding increases to contributed surplus (September 30, 2023 – \$130 and \$437 respectively).

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

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

10. Share-based payment arrangements (continued)

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

The table below summarizes the changes in the outstanding DSUs:

(thousands of DSUs)	September 30, 2024	September 30, 2023
Opening balance	57	51
Granted	10	10
Settled	-	(8)
Ending balance	67	53

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.

	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Major products/service lines				
Logistics and distribution	\$ 40,950	\$ 38,356	\$ 118,331	\$ 118,317
Packaging solutions	3,121	3,746	12,849	13,492
Healthcare Logistics segment	44,071	42,102	131,180	131,809
Ground transportation	104,349	103,856	315,743	315,567
Air freight forwarding	7,740	7,362	23,653	22,582
Dedicated and last mile delivery	18,768	17,027	54,842	50,497
Intersegment revenue	(15,328)	(13,593)	(43,234)	(41,570)
Specialized Transportation segment	115,529	114,652	351,004	347,076
Total revenue	\$ 159,600	\$ 156,754	\$ 482,184	\$ 478,885
	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Primary geographical markets				
Canada	\$ 133,090	\$ 126,214	\$ 398,301	\$ 382,354
United States	26,510	30,540	83,883	96,531
Total revenue	\$ 159,600	\$ 156,754	\$ 482,184	\$ 478,885

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

(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 September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Current income tax expense:				
Current taxes on income for the reporting period	\$ 6,889	\$ 6,266	\$ 21,025	\$ 21,188
Current taxes relating to previous periods and other adjustments	-	-	344	(126)
	6,889	6,266	21,369	21,062
Deferred income tax recovery:				
(Recognition) utilization of tax benefits related to loss for the period	(12)	86	(255)	156
Origination and reversal of temporary differences	(906)	(769)	(3,581)	(4,096)
Deferred taxes relating to previous years and other adjustments	-	-	(375)	160
	(918)	(683)	(4,211)	(3,780)
Income tax expense reported to the statements of income and comprehensive income	\$ 5,971	\$ 5,583	\$ 17,158	\$ 17,282

Total cash outflow for actual taxes paid for the three and nine months ended September 30, 2024 was \$5,580 and \$23,064 respectively (September 30, 2023 – \$10,961 and \$33,123 respectively).

b) Reconciliation of effective tax rate

	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Income before income taxes	\$ 22,257	\$ 20,918	\$ 64,098	\$ 64,861
Consolidated Canadian federal and provincial income tax rate	26.5%	26.5%	26.5%	26.5%
Income tax expense based on statutory rate	5,898	5,543	16,986	17,188
Increase in income taxes resulting from non-deductible items or other adjustments	73	40	203	60
Taxes relating to previous years and other adjustments	-	-	(31)	34
Total income tax expense	\$ 5,971	\$ 5,583	\$ 17,158	\$ 17,282

c) Deferred taxes

	September 30, 2024	December 31, 2023
Deferred tax assets	\$ 4,944	\$ 5,285
Deferred tax liabilities	(39,005)	(42,955)
Net deferred tax liability	\$ (34,061)	\$ (37,670)

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

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

12. Income taxes (continued)

d) Movement in deferred tax balances

	September 30, 2024	Recognized in income or loss	Foreign currency adjustments	December 31, 2023
Plant and equipment	\$ (11,642)	\$ 1,268	\$ (123)	\$ (12,787)
Accounts payable and accrued liabilities	1,204	336	-	868
Intangibles	(30,229)	3,857	(506)	(33,580)
Benefit of losses carried forward	2,859	328	-	2,531
Leases	3,321	(785)	27	4,079
Transaction costs	426	(793)	-	1,219
Net deferred tax liability	\$ (34,061)	\$ 4,211	\$ (602)	\$ (37,670)

	December 31, 2023	Recognized in income or loss	Foreign currency adjustments	September 30, 2023
Plant and equipment	\$ (12,787)	\$ (254)	\$ 125	\$ (12,658)
Accounts payable and accrued liabilities	868	45	(1)	824
Intangibles	(33,580)	1,052	528	(35,160)
Benefit of losses carried forward	2,531	(96)	-	2,627
Leases	4,079	163	(27)	3,943
Transaction costs	1,219	(261)	-	1,480
Net deferred tax liability	\$ (37,670)	\$ 649	\$ 625	\$ (38,944)

	September 30, 2023	Recognized in income or loss	Foreign currency adjustments	December 31, 2022
Plant and equipment	\$ (12,658)	\$ 1,126	\$ 19	\$ (13,803)
Accounts payable and accrued liabilities	824	5	-	819
Intangibles	(35,160)	3,827	60	(39,047)
Benefit of losses carried forward	2,627	(156)	-	2,783
Leases	3,943	(248)	(3)	4,194
Transaction costs	1,480	(774)	-	2,254
Net deferred tax liability	\$ (38,944)	\$ 3,780	\$ 76	\$ (42,800)

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

(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 September 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 \$10,515 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 nine months ended September 30, 2024 is 5.73% (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 nine months ended September 30, 2024 is 5.56% for Specialized Transportation and 6.52% 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 nine months ended September 30, 2024	As at and for the year ended December 31, 2023
Opening balance	\$ 62,141	\$ 77,701
Add: additions	6,051	2,477
Less: depreciation	(13,865)	(17,934)
Foreign currency adjustments	92	(103)
Ending balance	\$ 54,419	\$ 62,141

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

(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 nine months ended September 30, 2024	As at and for the year ended December 31, 2023
Opening balance	\$ 35,629	\$ 32,333
Add: additions	17,729	15,010
Less: derecognition of ROU assets	(164)	-
Less: depreciation	(10,274)	(11,691)
Foreign currency adjustments	8	(23)
Ending balance	\$ 42,928	\$ 35,629
Net carrying amounts of right-of-use assets included in property, plant and equipment	September 30, 2024	December 31, 2023
Facilities	\$ 54,419	\$ 62,141
Logistics and transportation equipment	42,928	35,629
Balance	\$ 97,347	\$ 97,770
Lease liabilities – Facilities	As at and for the nine months ended September 30, 2024	As at and for the year ended December 31, 2023
Opening balance	\$ 71,501	\$ 86,925
Add: additions	6,051	2,477
Add: interest expense	2,194	3,085
Less: principal repayments	(14,141)	(17,794)
Less: interest payments	(2,194)	(3,085)
Foreign currency adjustments	95	(107)
Ending balance	\$ 63,506	\$ 71,501
Lease liabilities – Logistics and transportation equipment	As at and for the nine months ended September 30, 2024	As at and for the year ended December 31, 2023
Opening balance	\$ 31,580	\$ 26,804
Add: additions	17,729	15,010
Add: interest expense	1,404	1,321
Less: derecognition of ROU assets	(164)	-
Less: principal repayments	(8,579)	(10,158)
Less: interest payments	(1,404)	(1,321)
Foreign currency adjustments	64	(76)
Ending balance	\$ 40,630	\$ 31,580
Cash lease principal payments	Nine months ended September 30, 2024	Year ended December 31, 2023
Repayments of lease principal	\$ (22,720)	\$ (27,952)
Total lease payments	\$ (22,720)	\$ (27,952)

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

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

13. Leases (continued)

Lease liabilities	September 30, 2024	December 31, 2023
Facilities	\$ (63,506)	\$ (71,501)
Logistics and transportation equipment	(40,630)	(31,580)
Balance	\$ (104,136)	\$ (103,081)

Lease liabilities included in consolidated balance sheets	September 30, 2024	December 31, 2023
Current	\$ (29,838)	\$ (27,697)
Non-current	(74,298)	(75,384)
Balance	\$ (104,136)	\$ (103,081)

Maturity analysis for lease liabilities – contractual undiscounted cash flows	September 30, 2024	December 31, 2023
Less than one year	\$ 33,616	\$ 32,285
One to 5 years	77,260	76,377
More than 5 years	4,153	5,636
Total undiscounted lease liabilities	\$ 115,029	\$ 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 nine months ended September 30, 2024 was \$1,226 and \$3,598 respectively (September 30, 2023 – \$1,087 and \$3,327 respectively). Total cash outflow for leases for the three and nine months ended September 30, 2024 was \$9,094 and \$26,318 respectively (September 30, 2023 – \$7,802 and \$24,176 respectively).

14. Interest expense

Interest expense recognized in income and comprehensive income	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Leases	\$ 1,226	\$ 1,087	\$ 3,598	\$ 3,327
Credit facilities	960	802	1,876	2,404
Total interest expense	\$ 2,186	\$ 1,889	\$ 5,474	\$ 5,731

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

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

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

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 September 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 \$9,241 (December 31, 2023 – \$12,926).
- d) The Company has made commitments to purchase fleet equipment totalling approximately \$613 (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.

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

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

16. Related parties (continued)

	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Revenue				
Transportation services				
1708998 Ontario Limited (Medical Courier Services)	\$ 47	\$ 52	\$ 146	\$ 158
Shared service recovery				
Andlauer Properties and Leasing Inc.	-	5	-	15
Andlauer Management Group Inc.	-	4	-	12
9143-5271 Quebec Inc.	-	8	-	24
1708998 Ontario Limited (Medical Courier Services)	-	6	-	18
Expenses				
Transportation services				
1708998 Ontario Limited (Medical Courier Services)	34	34	123	114
Med Express Ltd.	-	-	-	20
Contract labour services				
Ready Staffing Solutions Inc.	1,459	1,529	4,551	4,954
Equipment rent				
Andlauer Properties and Leasing Inc.	484	588	1,666	1,614
Facility rent				
Andlauer Properties and Leasing Inc.	662	517	1,778	1,706
9143-5271 Quebec Inc.	387	387	1,161	1,157
Maintenance services				
Logiserv Inc.	1	-	15	-
Travel services				
C-GHBS Inc.	-	-	-	58
Capital Expenditures				
Purchases of logistics and transportation equipment				
Logiserv Inc.	-	-	46	-

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

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

16. Related parties (continued)

	September 30, 2024	December 31, 2023
Trade receivables due from related parties		
Andlauer Properties and Leasing Inc.	\$ 13	\$ 13
1708998 Ontario Limited (Medical Courier Services)	16	41
	29	54
Due from related parties		
Andlauer Management Group Inc.	12	1
Total due from related parties	\$ 41	\$ 55
Trade payables due to related parties		
Ready Staffing Solutions Inc.	\$ 163	\$ 150
1708998 Ontario Limited (Medical Courier Services)	-	13
Andlauer Properties and Leasing Inc.	53	287
Logiserv Inc.	1	-
	217	450
Due to related parties		
Andlauer Properties and Leasing Inc.	412	206
Total due to related parties	\$ 629	\$ 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 nine month periods ended:

	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Key management compensation				
Salaries and benefits	\$ 1,012	\$ 1,015	\$ 3,034	\$ 3,046
Share-based payment arrangements	122	44	362	132
Director deferred share units	138	130	414	437
Total key management compensation	\$ 1,272	\$ 1,189	\$ 3,810	\$ 3,615

Andlauer Healthcare Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

For the nine months ended September 30, 2024 and 2023

(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.

	September 30, 2024	December 31, 2023
Total lease liabilities	\$ 104,136	\$ 103,081
Term facility	54,837	24,819
Less: cash and cash equivalents	(35,994)	(59,740)
Net debt	122,979	68,160
Last twelve months' net income	65,501	66,140
Last twelve months' interest income	(2,662)	(3,170)
Last twelve months' interest expense	7,950	8,207
Last twelve months' income tax expense	24,343	24,467
Last twelve months' depreciation and amortization	70,634	68,149
EBITDA	165,766	163,793
Net leverage ratio	0.74	0.42