**ANDLAUER HEALTHCARE GROUP INC.**

**Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2019**

**March 12, 2020**

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

*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 Group" in the Company's financial statements. Additionally, all references to "Q4 2019" are to the three months ended December 31, 2019; "Q4 2018" are to the three months ended December 31, 2018; "Fiscal 2019" are to our fiscal year ended December 31, 2019; "Fiscal 2018" are to our fiscal year ended December 31, 2018; and "Fiscal 2017" are to our fiscal year ended December 31, 2017.*

*This management's discussion and analysis of financial condition and results of operations ("MD&A") for the three months and year ended December 31, 2019 should be read in conjunction with the Company's audited annual consolidated financial statements for the fiscal year ended December 31, 2019, along with the related notes thereto. This MD&A is presented as of March 12, 2020 and is current to that date unless otherwise stated.*

### 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 and objectives. 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 or 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 are 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 Company's ability to execute its growth strategies;*
- *the impact of changing conditions in the healthcare logistics and transportation services market;*
- *increasing competition in the healthcare logistics and transportation services market in which the Company operates;*
- *volatility in financial markets;*
- *changes in the attitudes, financial condition and demand of the Company's target market;*
- *developments and changes in applicable laws and regulations;*
- *the Company's ability to source and complete acquisitions;*
- *the Company's ability to retain existing clients and develop new clientele;*
- *the Company's ability to retain members of our management team and key personnel;*
- *increases in driver compensation and the ability to attract and retain employees;*
- *the Company's ability to expand into additional markets; and*
- *such other factors discussed in greater detail under "Risk Factors" in this MD&A and in the Company's annual information form dated March 12, 2020 for Fiscal 2019 (our "AIF") which is available on the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.*

*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.*

*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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are presented in thousands of Canadian dollars unless otherwise indicated.

As described in additional detail in the audited financial statements of the Company, our financial statements are presented as consolidated financial statements. AHG's acquisition of the AHG Entities (as defined below) in connection with the Company's initial public offering ("IPO") was a business

combination involving entities under common control in which all of the combining entities are ultimately controlled by Andlauer Management Group Inc. ("AMG"). This method results in our financial statements being restated for periods prior to the date of obtaining common control, to reflect the combination as if it had occurred from the beginning of the period that the entities were under common control, regardless of the actual date the common control transaction closed.

**Non-IFRS Measures**

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

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

For quantitative reconciliations of net income and comprehensive income to EBITDA and EBITDA less Leases and CAPEX for Q4 2019, Q4 2018, Fiscal 2019 and Fiscal 2018, 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".

*Initial Public Offering*

On December 11, 2019, we successfully completed an IPO of 10,000,000 Subordinate Voting Shares at a price of $15.00 per share for gross proceeds of $150,000,000. The underwriters in the IPO were granted an over-allotment option (the "Over-Allotment Option") to purchase up to an additional 1,500,000 Subordinate Voting Shares at a price of $15.00 per Subordinate Voting Share, which was fully exercised on December 16, 2019, and raised additional gross proceeds of $22,500,000.

In connection with the IPO, we completed a series of reorganization transactions (the "Pre-IPO Reorganization"), including the settlement of certain outstanding related party balances, the creation of a new Ontario corporation, 2721275 Ontario Limited, and the settlement of the AHG Employee Benefit Plan Trust (the "Employee Trust"), for the benefit of certain executive officers and employees of the Company

and the AHG Entities. In addition, on December 11, 2019, we completed the acquisition of a number of entities including Associated Logistics Solutions Inc., Credo Systems Canada Inc., 2186940 Ontario Inc. and their respective subsidiaries (collectively, the "AHG Entities") from AMG in consideration for the issuance of 25,175,000 multiple voting shares ("Multiple Voting Shares", and together with the Subordinate Voting Shares, the "Shares"), and two non-interest bearing promissory notes in the aggregate principal amount of $200,000,000. See "Related Party Transactions."

In connection with closing of the IPO, we also entered into credit facilities (the "Credit Facilities") with Royal Bank of Canada and Canadian Imperial Bank of Commerce, comprised of a revolving facility in the aggregate principal amount of up to $75 million (the "Revolving Credit Facility") and a term facility in the aggregate principal amount of up to $25 million (the "Term Facility"). See "Liquidity and Capital Resources – Credit Facilities".

*Our Business*

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, biologics, 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 nation-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 industry. 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. Within our healthcare logistics and specialized transportation operating segments, we offer robust solutions specifically tailored to the healthcare market and generate revenue across five principal product lines: logistics and distribution, packaging solutions, air freight forwarding, ground transportation, and dedicated and last mile delivery.

Management believes 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 brand, through which we provide customized logistics, distribution and packaging solutions to various healthcare manufacturers. Our specialized transportation solutions are offered under our ATS Healthcare brand, 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.

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 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.

We differentiate our services and deliver value to our clients through four competitive strengths: temperature management, quality assurance and regulatory compliance, visibility throughout the supply chain and security. These capabilities are deployed across our nation-wide network of 28 secure, temperature-controlled facilities and the five third-party owned cross-docks that we operate from, by our team of highly-trained employees who are passionate about client service. 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.

Additional information about the Company can be found on our profile on SEDAR at www.sedar.com or on our website at www.andlauerheathcare.com. Our AIF is available on our profile on SEDAR at www.sedar.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. 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 our service offerings complement one another and allow us to accommodate the full range of 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 expertise and experience to effectively and efficiently optimize their product distribution to clients. 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, 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 certify

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. We have followed this strategic approach in the past at our Brampton, Ontario location, where we constructed a new 267,000 square foot facility in 2016 to accommodate a major new client. We are leveraging our experience from the construction of the Brampton facility for the development of our new 220,000 square foot facility in Mississauga, Ontario.

*National Demographics and Healthcare Spending*

We believe that we are strategically positioned to directly benefit from the strong growth expected in the Canadian healthcare sector, which is driven by a number of favourable trends including an aging population, increased life expectancy and increasing healthcare spending.

*Regulatory Environment*

In order to maintain the safety, quality and efficacy of healthcare products, government regulations have been introduced to set out rules relating to, among other things, the packaging, warehousing, distribution, transportation and temperature monitoring of such products. The pace 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 specialists, our clients can focus on their core business.

*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 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 FedEx, Purolator, UPS Supply Chain Solutions, Kuehne + Nagel and Lynden Logistics in our delivery of 3PL services. We also compete with certain regional transportation providers, such as Williams Pharmalogistics in Quebec and Rogue Transportation Services Inc. in Ontario, as well as Skelton Trucking, primarily in respect of 2°C to 8°C shipments.

*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 as well as strong open lines of communication and encourage our employees to suggest ways in which we can improve our operations. As our business has grown we have maintained a close connection to our employee base. We recognize and celebrate our very best employees who act as leaders within our employee team and promote movement within our organization in an effort to retain and encourage our top talent. As a result of these

efforts, we believe we have good relationships with our employees across our operating segments, none of whom are subject to collective bargaining agreements.

*Cost Escalation*

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, 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 fund our network of facilities, vehicles and logistics equipment and 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 of living indexes that provide for annual price adjustments which further protect us from the risks of escalating costs.

*Acquisitions*

We selectively evaluate strategically compelling acquisition opportunities that leverage or expand our differentiated capabilities. In pursuing potential acquisition candidates, we will 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, and will assess opportunities for expansion into the U.S. or international markets through an existing platform that aligns with our core capabilities and existing service offering.

## 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 and comprehensive income to EBITDA.

*Q4 2019 Compared to Q4 2018*

Select highlights include the following:

- Revenue increased 6.3% to $76.6 million, compared to $72.1 Q4 2018;
- Operating income increased 31.4% to $11.3 million, compared to $8.6 million in Q4 2018;
- Net income and comprehensive income increased 19.5% to $7.1 million, compared to $5.9 million in Q4 2018;
- EBITDA increased 19.4% to $17.7 million, compared to $14.9 million in Q4 2018;
- EBITDA margin increased to 23.1% from 20.6% in Q4 2018;

- We completed the construction of our new Calgary facilities, expanding our logistics and distribution footprint by 23,000 square feet and increasing capacity in our specialty transportation segment;
- We secured a lease on a new 220,000 square-foot facility (commencing July 1, 2020) in the GTA to service a major new client and to add capacity for future growth; and
- We successfully completed our $172.5 million IPO and commenced trading on the TSX.

*Fiscal 2019 Compared to Fiscal 2018*

Select highlights include the following:

- Revenue increased 4.7% to $290.0 million, compared to $277.0 million in Fiscal 2018;
- Operating income increased 10.1% to $45.0 million, compared to $40.9 million in Fiscal 2018;
- Net income and comprehensive income increased to $30.3 million, from $28.2 million in Fiscal 2018;
- EBITDA increased 9.6% to $70.6 million, compared to $64.4 million in Fiscal 2018; and
- EBITDA margin increased to 24.3% from 23.2% in Fiscal 2018.

**How We Assess the Performance of Our Business**

We have historically operated and managed our healthcare logistics and specialized transportation operating segments as separate businesses with separate management teams. Our healthcare logistics segment has operated under the brand name Accuristix and our specialized transportation segment has operated under the brand name ATS Healthcare. Following our IPO, both Accuristix and ATS Healthcare have continued to operate autonomously, each having its own management. Over time, as we grow, our operating segments may change. If this occurs, we will reflect the change in our reporting practices.

Both of our operating segments conduct their businesses in a manner that limits capital investments, preferring 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 and lower risks, creating cost savings as compared to more 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 expenses, as would have been seen prior to the adoption of IFRS 16. 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 healthcare sector. Across our logistics and 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 brand, generates revenue from the provision of logistics and distribution services and packaging solutions to our clients. Services are typically provided under master service agreements with terms that range from three to five years in length. Our logistics contracts typically include a single performance obligation that is satisfied over time as clients simultaneously receive and consume the benefits of our services. For this performance obligation, we recognize revenue at the invoiced amount since this amount corresponds directly to our performance and the value to the client. In some cases, our agreements include other performance obligations related to

managing transportation and other client services which are included in the logistics and distribution product. These services are typically priced at their stand-alone selling prices and are recognized over time on a proportionate and straight-line basis 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 combination.

Our specialized transportation segment, which offers services under our ATS Healthcare brand, 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 where 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 from the provision of transportation services to Accuristix, on behalf of its logistics clients, is eliminated on combination.

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. Decreases in fuel prices reduce the cost of transportation and services, and will accordingly reduce our revenues and may reduce margins for certain product lines.

*Cost of Transportation and Services*

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

*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 Expenses ("SG&A") 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. We expect our SG&A to increase as we incur additional legal, accounting, insurance and other expenses associated with being a public company.

*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 prefer to 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 expense 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.

*Other Income*

Other income comprises income that does not arise from the Company's main business, such as exchange gains (losses) and gains resulting from the sale of property, plant and equipment and certain other insignificant sources.

*Interest Income*

Interest income comprises interest earned on cash and cash equivalents together with interest earned on certain amounts due from related parties.

*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. Interest and bank charges and interest paid for amounts due to related parties are also included. In connection with our IPO, we entered into the Credit Facilities. Accordingly, the Company has begun to incur interest expense on the Credit Facilities since December 11, 2019.

*Income Tax Expense*

Income tax expense 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.

*Non-IFRS Measures*

EBITDA

We define EBITDA as net income and comprehensive income for the period before: (i) income tax (recovery) expense; (ii) interest income; (iii) interest expense; and (iv) depreciation and amortization.

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.

EBITDA less Leases and CAPEX

We define EBITDA less Leases and CAPEX as EBITDA less cash payments for leases and capital expenditures.

We believe EBITDA less Leases and CAPEX is a useful measure to assess our financial performance because it provides a measure of our operating earnings after reflecting the cash outflows associated with our leases and capital expenditures, including spending on leases, property plant and equipment and intangibles such as software, but before items which we view as non-operational such as depreciation, amortization, interest expense and taxes. We believe this is a useful measure when comparing our business to others in the sector.

EBITDA less Leases and CAPEX Conversion

We define EBITDA less Leases and CAPEX Conversion as EBITDA less Leases and CAPEX divided by EBITDA.

We believe EBITDA less Leases and CAPEX Conversion is a useful measure to assess our financial performance because it demonstrates our ability to generate EBITDA less Leases and CAPEX in relation to our EBITDA. We believe this is a useful measure when comparing our business to others in the sector.

EBITDA less Leases and CAPEX Margin

We define EBITDA less Leases and CAPEX Margin as EBITDA less Leases and CAPEX divided by revenue.

We believe EBITDA less Leases and CAPEX Margin is a useful measure to assess our financial performance because it allows us to evaluate our ability to generate EBITDA less Leases and CAPEX in relation to the revenues we earn from our clients. We believe this is a useful measure when comparing our business to others in the sector.

## Selected Consolidated Financial Information

The following table summarizes our results of operations for the periods indicated. The selected consolidated financial information for Q4 2019, Q4 2018, Fiscal 2019, Fiscal 2018 and Fiscal 2017 has been derived from our consolidated financial statements and related notes.

| ($CAD 000s) | Three Months Ended December 31, | | Year Ended December 31, | | |
|---|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** | **2017** |
| **Revenue** | | | | | |
| Logistics & Distribution | 22,664 | 21,046 | 88,311 | 85,125 | 80,895 |
| Packaging | 4,892 | 5,456 | 21,307 | 21,305 | 15,161 |
| Healthcare Logistics Segment | 27,556 | 26,502 | 109,618 | 106,430 | 96,056 |
| Ground Transportation | 45,685 | 42,391 | 169,040 | 160,489 | 143,919 |
| Air Freight Forwarding | 5,236 | 5,336 | 19,656 | 19,332 | 17,696 |
| Dedicated and Last Mile Delivery | 4,828 | 3,771 | 16,689 | 13,899 | 12,327 |
| Intersegment Eliminations | (6,704) | (5,905) | (25,015) | (23,140) | (18,968) |
| Specialized Transportation Segment | 49,045 | 45,593 | 180,370 | 170,580 | 173,942 |
| **Total revenue** | 76,601 | 72,095 | 289,988 | 277,010 | 251,030 |
| **Operating Expenses** | | | | | |
| Cost of transportation and services | 32,621 | 31,392 | 121,405 | 116,780 | 105,150 |
| Direct operating expense | 18,586 | 19,236 | 74,792 | 74,190 | 67,864 |
| Selling, general and administrative expenses | 7,543 | 6,672 | 23,092 | 21,683 | 20,394 |
| Depreciation & amortization | 6,503 | 6,160 | 25,706 | 23,491 | 23,629 |
| | 65,253 | 63,460 | 244,995 | 236,144 | 217,037 |
| **Operating income** | 11,348 | 8,635 | 44,993 | 40,866 | 33,993 |
| Other (expense) income | (122) | 55 | (145) | 19 | 439 |
| Interest income | 276 | 278 | 1,004 | 879 | 404 |
| Interest expense | (980) | (800) | (3,503) | (3,048) | (3,135) |
| Income tax expense | (3,447) | (2,249) | (12,004) | (10,531) | (8,517) |
| **Net income and comprehensive income** | 7,075 | 5,919 | 30,345 | 28,185 | 23,184 |
| **Net income and comprehensive income attributable to** | | | | | |
| Shareholders of the Company | 7,075 | 5,720 | 29,773 | 26,723 | 21,678 |
| Non-controlling interests | - | 199 | 572 | 1,462 | 1,506 |
| Earnings per share[(1)] – basic | $0.19 | N/A | $0.79 | N/A | N/A |
| Earnings per share[(1)] – diluted | $0.19 | N/A | $0.79 | N/A | N/A |
| **Select financial metrics** | | | | | |
| EBITDA | 17,729 | 14,850 | 70,554 | 64,376 | 58,061 |
| EBITDA Margin | 23.1% | 20.6% | 24.3% | 23.2% | 23.1% |
| EBITDA less Leases and CAPEX | 8,601 | 8,302 | 42,326 | 42,135 | 36,379 |
| EBITDA less Leases and CAPEX Conversion | 48.5% | 55.9% | 60.0% | 65.5% | 62.7% |
| EBITDA less Leases and CAPEX Margin | 11.2% | 11.5% | 14.6% | 15.2% | 14.5% |

[(1)] Earnings per share data is not presented for 2018 as AHG was not incorporated until November 12, 2019**.** Earnings per share is in respect of profit from continuing operations attributable to shareholders of the Company

*Consolidated Balance Sheets*

| ($CAD 000s) | As At December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| **Select financial position data** | | | |
| Total assets | 212,995 | 276,577 | 267,962 |
| Total non-current liabilities | 94,795 | 61,772 | 60,726 |

*Consolidated Statements of Changes in Equity*

| ($CAD 000s) | Three Months Ended December 31, | | Year Ended December 31, | | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2017 |
| **Select financial data** | | | | | |
| Distributions to related parties | (112,016) | (25,850) | (112,016) | (25,850) | (700) |
| Dividends paid to non-controlling interest | - | (150) | - | (150) | (300) |

## Reconciliation of Non-IFRS Measures

The following table provides a reconciliation of net income and comprehensive income to EBITDA and to EBITDA less Leases and CAPEX for Q4 2019, Q4 2018, Fiscal 2019 and Fiscal 2018:

| ($CAD 000s) | Three Months Ended December 31, | | Year Ended December 31, | | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2017 |
| **Net income and comprehensive income** | 7,075 | 5,919 | 30,345 | 28,185 | 23,184 |
| Income tax expense | 3,447 | 2,249 | 12,004 | 10,531 | 8,517 |
| Interest income | (276) | (278) | (1,004) | (879) | (404) |
| Interest expense | 980 | 800 | 3,503 | 3,048 | 3,135 |
| Depreciation & amortization | 6,503 | 6,160 | 25,706 | 23,491 | 23,629 |
| **EBITDA** | 17,729 | 14,850 | 70,554 | 64,376 | 58,061 |
| Capital expenditures | (3,286) | (1,310) | (5,935) | (2,508) | (2,419) |
| Lease payments | (5,842) | (5,238) | (22,293) | (19,733) | (19,263) |
| **EBITDA less Leases and CAPEX** | 8,601 | 8,302 | 42,326 | 42,135 | 36,379 |

## Results of Operations

*Three and Months Ended December 31, 2019 Compared with 2018*

The following section provides an overview of our financial performance for Q4 2019 and Q4 2018. Although our business continued to operate in its normal course throughout Q4 2019, a significant event occurred with the completion of our IPO on December 11, 2019. In connection with our IPO, certain expenses, such as transaction costs and the cost of share-based compensation arrangements for directors, officers, and certain key management employees were recognized in Q4 2019. The impact of these costs is discussed in the SG&A section below.

Revenue

Revenue for Q4 2019 increased by 6.3% to $76.6 million compared with Q4 2018. Revenue growth was led by continued volume growth in ground transportation and by new contracts in logistics and distribution and dedicated and last mile delivery products, resulting in approximately $4.5 million of incremental revenue.

*Healthcare Logistics Segment*

Revenue in our healthcare logistics segment increased by 4.0% for Q4 2019, or approximately $1.1 million, to $27.6 million, compared with Q4 2018. Revenue growth in this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for Q4 2019 increased by 7.7%, or approximately $1.6 million, to $22.6 million, compared with Q4 2018. We did not obtain any significant new clients during the quarter, but revenue was bolstered by higher handling and transportation revenues driven by higher volumes from existing clients.

Packaging

Packaging revenue for Q4 2019 decreased by 10.3%, or approximately $0.6 million, to $4.9 million, compared with Q4 2018. Q4 2019 was impacted by the decision of our largest packaging client to defer certain projects until the first quarter of 2020. Accordingly, we expect above average growth for the packaging product in January and February of 2020.

*Specialized Transportation Segment*

Revenue in our specialized transportation segment for Q4 2019 increased by 7.7%, or approximately $3.5 million to $49.0 million, compared with Q4 2018. Revenue growth in this segment was primarily driven by the factors set out below.

Air Freight Forwarding

Air freight forwarding revenue for Q4 2019 decreased by 1.9% or approximately $0.1 million to $5.2 million, compared with Q4 2018. Revenue growth for air freight forwarding has been slower than other products as clients generally try to minimize expedited shipping by air due to its relatively high cost as compared to ground transportation.

Ground Transportation

Ground transportation revenue for Q4 2019 increased by 7.8%, or approximately $3.3 million, to $45.7 million, compared with Q4 2018. Revenue was primarily impacted by increased volume from our existing client base.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for Q4 2019 increased by 28.0%, or approximately $1.1 million, to $4.8 million, compared with Q4 2018. Revenue was primarily impacted by expanded routes for existing clients. Dedicated and last mile delivery growth is expected to continue as Health Canada expands its enforcement of GUI-0069 in connection with temperature-controlled transportation.

Cost of Transportation and Services

Cost of transportation and services for Q4 2019 was $32.6 million, or 42.6% of revenue, compared with $31.4 million, or 43.5% of revenue, for Q4 2018. The cost of transportation and services operating ratios

for the three months ended both periods are in line with prior years with no major fluctuations in costs versus revenue.

Direct Operating Expenses

Direct operating expenses for Q4 2019 were $18.6 million, or 24.3% of revenue, compared with $19.2 million, or 26.7% of revenue, for Q4 2018. The year-over-year operating ratios for direct operating expenses in relation to revenue are consistent with prior years with no major factors influencing variances. In October 2019 we expanded our ATS branch capacity in Calgary and relocated our Accuristix distribution centre to a new and larger facility in Calgary. Accordingly, we experienced increases in direct operating expenses in November and December, 2019 in relation to both Calgary expansions as we invested to support future growth. These additional costs were offset by improved efficiencies and the recovery of costs in connection with our Calgary relocation from logistics and distribution clients.

Selling, General and Administrative Expenses

SG&A for Q4 2019 was $7.5 million, or 9.8% of revenue, compared with $6.7 million, or 9.3% of revenue, for Q4 2018. SG&A expenses for Q4 2019 include IPO transaction costs of approximately $1.0 million, or 1.2% of revenue, which are incremental to the historical SG&A expense reflected in our operating income. A further $1.4 million, or 1.8% of revenue, was expensed in connection with the Company's share-based payment arrangements. These increased costs in Q4 2019 were partially offset by a special one-time employee compensation cost in the specialized transportation segment in Q4 2018. The Company expects approximately $2.0 million of incremental annual costs to be incurred as a result of being a public company in 2020 and each year thereafter as compared to its prior costs as a private company.

Depreciation and Amortization

Depreciation and amortization for Q4 2019 was $6.5 million compared with $6.2 million for Q4 2018. The increase in depreciation and amortization of $0.3 million for Q4 2019 represents a 5.6% year-on-year increase and is attributable to leases for new right of use logistics and transportation equipment to support growth in the specialized transportation segment. Our new leased facilities in Calgary came online during Q4 2019 in connection with our expansion to support future growth, which accounts for the majority of the year-on-year increase.

Other Income/Expense

Other expense for Q4 2019 was $0.1 million compared with other income of $0.1 million for Q4 2018. These amounts are immaterial to the overall performance of the Company for these quarters.

Interest Income

Interest income for Q4 2019 was $0.3 million compared with $0.3 million for Q4 2018.

Interest Expense

Interest expense for Q4 2019 was $1.0 million compared with $0.8 million for Q4 2018. Interest expense related to leased facilities and equipment comprises the significant majority of interest expense; however, $0.1 million of interest expense was incurred in connection with the Credit Facilities which were entered into in connection with the IPO. The Company expects to continue to hold debt under the Term Facility, which does not have any repayment schedule except as a single repayment at the end of the term, and will incur interest expense on the Term Facility for the duration of the term (four years).

Income Tax Expense

Income tax expense for Q4 2019 was $3.4 million compared with $2.2 million for Q4 2018. Income tax expense for Q4 2019 is higher than what would be expected at the statutory rate because deferred tax assets have not been recognized in respect of tax losses related to IPO transaction costs. In addition, deductible temporary differences, comprising IPO transaction costs which have been charged directly to equity, have not yet been recognized. The Company is evaluating alternatives under which sufficient future taxable profit will be available against which the Company can use the benefits therefrom.

Operating Income and Net Income and Comprehensive Income

Operating income for Q4 2019 was $11.3 million compared with $8.6 million for Q4 2018, representing an increase of $2.7 million, or 31.4%.

Net Income and comprehensive income for Q4 2019 increased by 19.5%, or $1.2 million, to $7.1 million, from $5.9 million for Q4 2018. Operating income and net income and comprehensive income increased over the prior year due to the factors discussed above.

EBITDA

EBITDA for Q4 2019 increased by 19.4%, to $17.7 million, from $14.9 million for Q4 2018. EBITDA increased over the year due to the factors discussed above.

EBITDA Margin

EBITDA Margin for Q4 2019 improved to 23.1% from 20.6% for Q4 2018. Operating leverage was created for Q4 2019 versus the prior year as increases in our two most significant operating costs (cost of transportation and services and direct operating expenses) were lower than the increases in revenue growth.

*Fiscal 2019 Compared With Fiscal 2018*

The following section provides an overview of our financial performance during Fiscal 2019 compared with Fiscal 2018.

Revenue

Revenue for Fiscal 2019 increased by 4.7%, or approximately $13.0 million, to $290.0 million, compared with Fiscal 2018. Revenue was impacted by a combination of volume growth and price increases in ground transportation, new contracts in logistics and distribution and higher project volumes in packaging. All product lines, except packaging, demonstrated year-on-year growth for 2019.

*Healthcare Logistics Segment*

Revenue in our healthcare logistics segment for Fiscal 2018 increased by 3.0%, or approximately $3.2 million, to $109.6 million, compared with Fiscal 2018. Revenue growth in this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for Fiscal 2019 increased by 3.7%, or approximately $3.2 million, to $88.3 million, compared with Fiscal 2018. Revenue growth was primarily driven by the full year impact of new clients on-boarded during 2018 and partial contribution of new clients implemented during 2019.

Packaging

Packaging revenue for Fiscal 2019 was flat at approximately $21.3 million, compared with Fiscal 2018. Revenue was primarily impacted by a deferral of fourth quarter projects by Nova Pack's largest client to the first quarter of 2020. The Company expects stronger than average quarterly volumes for the first quarter of 2020 as a result.

*Specialized Transportation Segment*

Revenue in our specialized transportation segment for Fiscal 2019 increased by 5.7%, or approximately $9.8 million, to $180.4 million, compared with Fiscal 2018. Revenue growth in this segment was primarily driven by the factors set out below.

Air Freight Forwarding

Air freight forwarding revenue for Fiscal 2019 increased by 1.7%, or approximately $0.3 million, to $19.7 million, compared with Fiscal 2018. Revenue was primarily impacted by 3% lower total weight shipped offset by price increases.

Ground Transportation

Ground transportation revenue for Fiscal 2019 increased by 5.3%, or approximately $8.6 million, to $169.0 million, compared with Fiscal 2018. Revenue was primarily impacted by continued strong demand for temperature controlled (ambient 15°C to 25°C) transportation services and revenue management activity resulting in price increases. Approximately half of the revenue increase was due to increased year-on-year volume from our existing client base, with the remainder attributed to price increases.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for Fiscal 2019 increased by 20.1%, or approximately $2.8 million, to $16.7 million, compared with Fiscal 2018. Year-on-year growth in revenue was driven by expansion of routes from existing clients, as certain wholesale and veterinary distributors deployed temperature-controlled transportation more broadly within Canada to address increased Health Canada enforcement of GUI-0069.

Cost of Transportation and Services

Cost of transportation and services for Fiscal 2019 was $121.4 million, or 41.9% of revenue, compared with $116.8 million, or 42.2% of revenue, for Fiscal 2018. The year-over-year improvement as a percentage of revenue was primarily driven by a stabilization of costs for employee drivers and outsourced carriers as the Company experienced the effects of a general shortage of drivers in Fiscal 2018.

Direct Operating Expenses

Direct operating expenses for Fiscal 2019 were $74.8 million, or 25.8% of revenue, compared with $74.2 million, or 26.8% of revenue, for Fiscal 2018. The slight year-over-year improvement as a percentage of revenue was primarily driven by improved efficiency through productivity gains and growth in revenue while leveraging our available facility capacity, in addition to improved utilization of our branch facilities.

Selling, General and Administrative Expenses

SG&A for Fiscal 2019 was $23.1 million, or 8.0% of revenue, compared with $21.7 million, or 7.8% of revenue, for Fiscal 2018. The year-over-year decline as a percentage of revenue was primarily driven by expenses attributable to the IPO. The Company proactively manages its overhead costs and attempts to limit increases in SG&A costs, including employee costs, to activities that will drive additional revenue.

Depreciation and Amortization

Depreciation and amortization for Fiscal 2019 was $25.7 million, compared with $23.5 million for Fiscal 2018. The increase is attributed to continued investment in facilities and equipment to support the Company’s growth.

Other Income/Expense

Other expense for Fiscal 2019 was $(0.1) million, compared with other income of $0.0 million for Fiscal 2018, due primarily to losses on the disposal of equipment realized in Fiscal 2019.

Interest Income

Interest income for Fiscal 2019 was $1.0 million, compared with $0.9 million for Fiscal 2018, due to increased cash and cash equivalents balances throughout the year up to the date of the IPO. The Company’s capital structure has changed in connection with the IPO. Moving forward, interest income is expected to be negligible.

Interest Expense

Interest expense for Fiscal 2019 increased to $3.5 million, compared with $3.0 million for Fiscal 2018 in connection with increases in leased facilities and equipment to support growth in our business. Interest expense related to leased facilities and equipment comprises the significant majority of interest expense, with interest expense in connection with the Company’s Credit Facilities amounting to $0.1 million for Fiscal 2019 (Fiscal 2018 - $nil).

Income Tax Expense

Income tax expense for Fiscal 2019 was $12.0 million, compared with $10.5 million for Fiscal 2018. Income tax expense for Fiscal 2019 is higher than what would be expected at the statutory rate because deferred tax assets have not been recognized in respect of tax losses related to IPO transaction costs. In addition, deductible temporary differences, comprising IPO transaction costs which have been charged directly to equity, have not yet been recognized. The Company is evaluating alternatives under which sufficient future taxable profit will be available against which the Company can use the benefits therefrom.

Operating Income and Net Income and Comprehensive Income

Operating income for Fiscal 2019 was $45.0 million, compared with $40.9 million for Fiscal 2018, comprising an increase of $4.1 million or 10.1%. Net Income and comprehensive income for Fiscal 2019 increased by 7.7%, or $2.1 million, to $30.3 million from $28.2 million in Fiscal 2018. Operating income and net income and comprehensive income increased over the prior year due to the factors discussed above.

EBITDA

EBITDA for Fiscal 2019 increased by 9.6%, or $6.2 million, to $70.6 million from $64.4 million in Fiscal 2018. EBITDA increased over the year due to the factors discussed above.

EBITDA Margin

EBITDA Margin for Fiscal 2019 improved slightly to 24.3% from 23.2% in Fiscal 2018. Improvements in cost of transportation and services and direct operating expenses more than offset the deterioration of the SG&A expenses (including the one-time transaction costs associated with the IPO).

**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:

| ($CAD 000s) except per share data | 4Q-19 | 3Q-19 | 2Q-19 | 1Q-19 | 4Q-18 | 3Q-18 | 2Q-18 | 1Q-18 |
|---|---|---|---|---|---|---|---|---|
| Total revenue | 76,601 | 71,040 | 72,004 | 70,343 | 72,095 | 66,222 | 67,984 | 70,709 |
| Operating income | 11,348 | 11,265 | 11,372 | 11,008 | 8,635 | 9,680 | 11,391 | 11,160 |
| Net income and comprehensive income | 7,075 | 7,766 | 7,958 | 7,546 | 5,919 | 6,561 | 7,892 | 7,813 |
| Net income and comprehensive income attributed to shareholders of the Company | 7,075 | 7,766 | 7,644 | 7,288 | 5,720 | 6,293 | 7,324 | 7,386 |
| EBITDA | 17,729 | 17,857 | 17,680 | 17,288 | 14,850 | 15,587 | 17,152 | 16,787 |
| Earnings per share – basic[(1)] | $0.19 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Earnings per share - diluted[(1)] | $0.19 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

[(1)] Earnings per share data is not presented for 2018 or the first three quarters of 2019 as AHG was not incorporated until November 12, 2019. Earnings per share is in respect of profit from continuing operations attributable to shareholders of the Company.

Revenue has trended upwards through the past eight quarters with the final quarter in 2019 reflecting both strong shipping volumes from our clients as well as the impact of price increases which were contractually implemented in the specialized transportation segment.

Operating income, net income and comprehensive income, and EBITDA for Q4 2018 reflect a one-time special bonus paid to certain executives of $1.6 million. Operating income, net income and comprehensive income, and EBITDA for Q4 2019 reflect IPO transaction costs and share-based compensation expenses totaling $2.4 million which are incremental to the historical performance of the Company.

**Liquidity & Capital Resources**

*Overview*

Our principal uses of funds are for operating expenses, taxes, interest, capital expenditures, lease payments, and distributions to related parties. We believe that cash generated from our operations, together with amounts available under the Credit Facilities will be sufficient to meet our future operating expenses, taxes, interest, capital expenditures, lease payments and any further distributions to related parties. In addition, we believe that our EBITDA less Leases and CAPEX provides us with significant financial flexibility to service our debt and to pursue our future growth strategies. However, our ability to fund operating expenses, taxes, interest, capital expenditures, future lease payments, and distributions to related parties 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.

*Working Capital*

The following table presents our working capital position as at December 31, 2019 and 2018:

| **($CAD 000s)** | **As At December 31,** | |
|---|---|---|
| | **2019** | **2018** |
| Cash and cash equivalents | 18,712 | 53,657 |
| Accounts receivable | 51,060 | 48,430 |
| Inventories | 1,071 | 1,366 |
| Prepaid expenses and other | 2,307 | 1,448 |
| Due from related parties | 239 | 54,957 |
| Due from Employee Trust | 13,875 | - |
| Revolving Credit Facility | (3,929) | - |
| Accounts payable and accrued liabilities | (24,942) | (27,096) |
| Current portion of lease liabilities | (19,129) | (17,940) |
| Income taxes payable | (8,695) | (41) |
| **Working Capital** | 30,569 | 114,781 |

As at December 31, 2019 we had $30.6 million of working capital compared to $114.8 million of working capital as at December 31, 2018. The $84.2 million decrease in working capital is attributed to the Pre-IPO Reorganization. We made net distributions to related parties and paid dividends to non-controlling interests of $112.0 million in Fiscal 2019 (Fiscal 2018 - $26.0 million) which reduced our cash and total working capital balances. The year-over-year decrease in working capital was partially offset by a loan made to the Employee Trust in connection with the closing of our IPO.

*Credit Facilities*

We entered into the Credit Facilities upon closing of our IPO, comprised of the Revolving Credit Facility and the Term Facility. As at December 31, 2019, the aggregate amount outstanding under the Credit Facilities was approximately $3.9 million under the Revolving Credit Facility and $25 million under the Term Facility). The Credit Facilities will mature and be due and payable on December 11, 2023.

The Revolving Credit Facility is available to be drawn in Canadian dollars by way of prime rate loans, bankers’ acceptances and letters of credit, and in U.S. dollars by way of base rate loans, LIBOR based 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 on closing of the IPO by way of prime rate loans and bankers’ acceptances.

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 the Company is 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 Q4 2019 were $3.3 million (Q4 2018 - $1.3 million) and in Fiscal 2019 were $5.9 million (Fiscal 2018 - $2.5 million). Capital expenditures have historically been funded through cash flows from operations. Management has traditionally divided its capital expenditures into two subcategories, Capital Expenditures (Maintenance) and Capital Expenditures (Growth), which are further detailed below.

There are no known trends or expected fluctuations in the Company's capital resources, including expected changes in the mix and relative cost of these resources.

*Capital Expenditures (Maintenance)*

Maintenance CAPEX 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 Q4 2019 were $0.3 million (Q4 2018 - $0.2 million) and in Fiscal 2019 were $1.5 million (Fiscal 2018 - $1.2 million). These capital expenditures have historically been funded through cash flows from operations.

*Capital Expenditures (Growth)*

Growth CAPEX comprises 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, computer equipment to support new contracts or additional volume from new business. Outlays for growth capital expenditures for Q4 2019 were $3.0 million (Q4 2018 - $1.1 million) and in Fiscal 2019 were $4.4 million (Fiscal 2018 - $1.3 million) and can range from $1.0 million up to $10.0 million in any given year, depending on the underlying expansion need. Growth CAPEX has also historically been funded through cash flows from operations.

*Cash Flows*

The following table presents cash flows for Q4 2019, Q4 2018, Fiscal 2019 and Fiscal 2018:

| ($CAD 000s) | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| **Cash flows** | | | | |
| Cash from Operating Activities | 26,581 | 14,160 | 61,001 | 52,338 |
| Cash used in Investing Activities | (3,397) | (1,256) | (6,165) | (2,497) |
| Cash used in Financing Activities | (40,665) | (6,381) | (89,781) | (46,332) |
| **Net change in cash** | **(17,481)** | **6,523** | **(34,945)** | **3,509** |
| **Select cash flow data** | | | | |
| Capital expenditures | (3,286) | (1,310) | (5,935) | (2,508) |
| Lease payments | (5,842) | (5,238) | (22,293) | (19,733) |
| **Select financial metrics** | | | | |
| EBITDA less Leases and CAPEX | 8,601 | 8,302 | 42,326 | 42,135 |
| EBITDA less Leases and CAPEX Conversion | 48.5% | 55.9% | 60.0% | 65.5% |
| EBITDA less Leases and CAPEX Margin | 11.2% | 11.5% | 14.6% | 15.2% |

*EBITDA less Leases and CAPEX and EBITDA less Leases and CAPEX Conversion*

Our EBITDA less Leases and CAPEX, which represents the earnings we generate after cash outflows to support operations and maintain our capital assets, was $8.6 million for Q4 2019 compared to $8.3 million for Q4 2018.

Our EBITDA less Leases and CAPEX increased to $42.3 million in Fiscal 2019 from $42.1 million in Fiscal 2018. The EBITDA less Leases and CAPEX generated in Fiscal 2019 represented a 60.0% EBITDA less Leases and CAPEX Conversion (Fiscal 2018 – 65.5%), demonstrating our continued ability to finance our ongoing growth and provide shareholders with the opportunity for dividends. EBITDA less Leases and CAPEX in Fiscal 2019 versus Fiscal 2018 reflects increased expenditures associated with the opening of our new facilities in Calgary.

*Cash Flow Generated From Operating Activities*

Cash flows generated from operating activities for Q4 2019 totaled $26.5 million and versus $14.1 million for the same period in 2018. The increases in cash flows generated from operating activities relate principally to normal fluctuations in trade accounts receivable and trade accounts payable balances.

Cash flows generated from operating activities in Fiscal 2019 totaled $61.0 million (Fiscal 2018 – $52.3 million). The increase in cash flow from operations is the result of strong and stable margins fueled by organic growth, generated from a mix of new clients, increased pricing and increased volumes, across our five product lines.

*Cash Flow (Used In) Investing Activities*

Cash flows used in investing activities for Q4 2019 and Fiscal 2019 reflect growth-based capital expenditures of $3.0 million and $4.4 million respectively, in connection with the expansion to two facilities in Calgary.

*Cash Flow (Used In) Financing Activities*

We operate our business by utilizing leases to primarily finance our vehicles and facilities, resulting in significant lease payments on an annual basis. We paid $22.3 million for leases, including interest expense, in Fiscal 2019 (Fiscal 2018 - $19.7 million). Further, we made distributions to related parties in Fiscal 2019 of $112.0 million (Fiscal 2018 – 25.8 million) and paid dividends to non-controlling interests in Fiscal 2018 of $0.2 million.

**Contractual Obligations**

As at December 31, 2019, the Company had the following contractual commitments:

- Outstanding letters of guarantee in the amount of $180 (December 31, 2018 – $68).
- A lease agreement, entered into by the Company on November 28, 2019, relating to a facility located at 200 Edgeware Road, Brampton, Ontario for a 7-year lease term commencing on July 1, 2020. Total lease commitments over this term amount to $15,450. In relation to the same facility, the Company entered into a construction agreement on November 28, 2019 with Orlando Corporation Inc., as contractor, and Stevron Holdings Limited, as landlord, committing to construction work of $2,484, of which the landlord has provided $1,200 in cash allowances, received in January 2020. Construction of the facility is expected to be completed by June 2020.
- Commitments relating to the leasing of fleet equipment, ranging from 60 to 84 months, beginning upon delivery to the Company of the equipment in 2020, for total lease commitments of $2,987.

*Credit facilities*

As at December 31, 2019, the aggregate amount outstanding under the Credit Facilities was approximately $3.9 million under the Revolving Credit Facility and $25 million under the Term Facility). The Credit Facilities will mature and be due and payable on December 11, 2023.

*Leases*

We lease buildings and equipment in the operation of our healthcare logistics and specialized transportation business. Building lease terms range from five to ten years, with many leases including optional extension periods. For Fiscal 2019, building lease liabilities are calculated using our average incremental borrowing rate of 3.75% (Fiscal 2018 – 3.69%). Equipment lease terms range from one to five years. For Fiscal 2019, equipment lease liabilities are calculated using our incremental borrowing rate of 4.07% (Fiscal 2018 – 4.66%) for our specialized transportation segment and 3.95% (Fiscal 2018 – 4.37%) for our healthcare logistics segment.

The following table summarizes our contractual obligations as at December 31, 2019, and 2018 based on undiscounted cash flows:

| ($CAD 000s) | Total | Less than 1 Year | 1-5 Years | More than 5 years |
|---|---|---|---|---|
| Credit Facilities | 28,484 | - | 28,484 | - |
| Lease liabilities | 118,818 | 23,714 | 71,654 | 23,450 |
| Other obligations | 34,293 | 33,637 | 656 | - |
| **Total contractual obligations** | **181,595** | **57,351** | **100,794** | **23,450** |

**Off-Balance Sheet Arrangements**

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

**Seasonality**

There is no significant seasonality to our business.

**Financial Instruments**

*Financial assets*

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

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

Our financial assets are comprised of cash and cash equivalents, accounts receivable, due from related parties, 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 derecognition 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 derecognition is also recognized in profit or loss.

**Related Party Transactions**

Intercompany balances and transactions have been eliminated in our consolidated financial statements.

During the year, 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 on 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, 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, AMG holds all of the Multiple Voting Shares of the Company and 75,000 Subordinate Voting Shares, representing approximately 67% of the issued and outstanding Shares and 89% of the voting power attached to all of the Shares. AMG is owned and controlled by Michael Andlauer, our Chief Executive Officer and a director of the Company.

In connection with the IPO, AHG acquired the AHG Entities from AMG in consideration for the issuance of: (i) 25,175,000 Multiple Voting Shares, (ii) a non-interest bearing promissory note in the aggregate principal amount of $186,125 ("Acquisition Note 1") and (iii) a non-interest bearing convertible promissory note in the principal amount of $13,875 ("Acquisition Note 2"), which was convertible into 925,000 Subordinate Voting Shares at the option of the holder. Upon closing of our IPO on December 11, 2019, we used the aggregate net proceeds raised from the IPO, totaling $150,000, together with a draw of $50,000 from our Credit Facilities, to repay Acquisition Note 1, and make a non-interest bearing loan to the Employee Trust in the principal amount of $13,875 (the "Employee Trust Loan"). On that same date, AMG converted Acquisition Note 2 into 925,000 Subordinate Voting Shares (which the Employee Trust subsequently acquired using the proceeds from the Employee Trust Loan), and converted 75,000 of the

Multiple Voting Shares received pursuant to the Purchase Agreement into 75,000 Subordinate Voting Shares (which it intends to transfer, at least 180 days after closing of the IPO, to select independent owner-operators engaged by AHG).

AMG provides key management personnel to us for which it receives management fees. We paid management fees of $670 for Fiscal 2019 (Fiscal 2018 - $696) to AMG in connection with compensation for key management personnel. We do not expect to continue purchasing key management personnel services from AMG in 2020. All employees involved in the AHG business previously employed by AMG have become our employees.

In Fiscal 2019, we began to recover facility lease costs from AMG. For Fiscal 2019 we recovered $320 of facility lease costs from AMG. We expect to continue to incur and recover facility lease costs in connection with AMG. In Fiscal 2019, we charged AMG $12 (Fiscal 2018 - $12) 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 Fiscal 2019, we expensed $1,484 (Fiscal 2018 - $1,046) for leases of logistics and transportation equipment; and $605 (Fiscal 2018 - $345) for leases of facilities from APLI. The specific facilities that we lease from APLI are located at: 881 Bell Blvd. W, Belleville, 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. In Fiscal 2019 we charged APLI $18 (Fiscal 2018 - $18) 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 the Company. We also lease facilities from arm’s length providers. During Fiscal 2019, we expensed $1,149 (Fiscal 2018 - $1,109) for this building. We expect to continue leasing this property.

In Fiscal 2019, we charged 9143-5271 Québec Inc. $30 (Fiscal 2018 - $30) 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 (the “GTA”). We also purchase temporary agency employee services from arm’s length providers. During Fiscal 2019, we expensed $4,153 (Fiscal 2018 - $4,176) for purchases of temporary agency employee services from RSS. These expenses primarily relate to the cost of the labour provided through 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 Fiscal 2019, we expensed $253 (Fiscal 2018 - $236) for deliveries subcontracted to MCS. We expect to continue subcontracting deliveries to MCS. Similarly, in Fiscal 2019 we invoiced MCS

for $7 (Fiscal 2018 - $4) for transportation services provided to MCS. In Fiscal 2019, we charged MCS $12 (Fiscal 2018 - $12) for recovery of shared services costs.

*McAllister Courier Inc.*

McAllister Courier Inc. ("MCI") is a subsidiary owned 50% by AMG and provides transportation services to us, providing extended reach for shipments where we do not have our own facilities or equipment. During Fiscal 2019, we expensed $972 (Fiscal 2018 - $1,053) for deliveries subcontracted to MCI. We expect to continue subcontracting deliveries to MCI.

*TDS Logistics Ltd.*

TDS Logistics Ltd. ("TDS") is a subsidiary owned 50% by AMG and subcontracts deliveries to us, to take advantage of efficiencies gained through coincidences of delivery. During Fiscal 2019, we charged $721 (Fiscal 2018 - $100) for deliveries subcontracted to us by TDS. We also provide TDS with certain shared services, comprising administrative and information technology services and recover certain equipment rental charges from TDS. During Fiscal 2019, we charged TDS $252 (Fiscal 2018 - $144) for shared services and recovered $364 (Fiscal 2018 - $nil) in equipment rental charges. We expect to continue providing delivery services on behalf of TDS, and shared services and equipment rentals to TDS. In Fiscal 2019, TDS began to provide transportation services to us, offering us additional capacity where we can sub-contract deliveries to take advantage of coincidences of delivery. During Fiscal 2019, TDS charged us $558 (Fiscal 2018 – nil) for deliveries subcontracted to it by AHG. We expect to continue to subcontract deliveries to TDS.

In Fiscal 2018 we provided TDS with facility and equipment leases, which are cost recoveries. For Fiscal 2019 we recovered $656 (Fiscal 2018 - $139) of facility lease costs from TDS. We expect to continue to incur and recover these costs in connection with TDS.

*Med Express*

Med Express is a subsidiary owned 50% by AMG and provides transportation services to the Company, providing extended reach for shipments where the Company does not have facilities or equipment. In Fiscal 2019 we purchased $1 (Fiscal 2018 – $nil) in services from Med Express.

*Bourbon Street Enterprises Inc.*

Bourbon Street Enterprises Inc. ("BSE") is owned directly by Cameron Joyce, one of our directors. On July 19, 2018, AMG acquired 15% of the non-controlling equity interest held by BSE in Associated Logistics Solutions Inc. and on June 13, 2019, purchased the remaining 15% equity interest in ALS from BSE.

*D.C. Racking & Maintenance Inc.*

D.C. Racking & Maintenance Inc. ("DCR") is a subsidiary of BSE and provides warehouse racking installation, maintenance and repairs for our healthcare logistics segment. We also purchase warehouse racking installation, maintenance and repairs from arm's length providers. During Fiscal 2019, we expensed $46 (Fiscal 2018 - $64) for warehouse racking installation, maintenance and repair services provided by DCR. We expect to continue to purchase warehouse racking installation, maintenance and repair services from DCR.

*Logiserv*

Logiserv Inc. ("Logiserv") is a subsidiary of BSE and provides us with warehouse racking and racking components. We also purchase warehouse racking and racking components from arm's length providers. During Fiscal 2019, we capitalized $335 (Fiscal 2018 - $177) for purchases of warehouse racking. We expect to continue to purchase warehouse racking and racking components 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 Fiscal 2019, we purchased $329 (Fiscal 2018 – $nil) from C-GHBS. We expect to continue to purchase air travel services from C-GHBS.

*Bulldog Hockey Inc.*

Bulldog Hockey Inc. ("BHI") is a subsidiary of AMG and provides sports and entertainment services to us. During Fiscal 2019, we purchased $25 (Fiscal 2018 - $28) of sports and entertainment services from BHI on terms which we believe to be arm's length. We also purchase sports and entertainment services from arm's length providers. We expect to continue to purchase sports and entertainment services from BHI.

*Due from/to related parties*

The chart below summarizes amounts due to or from related parties.

| ($CAD 000s) | As At December 31, | |
|---|---|---|
| | **2019** | **2018** |
| **Accounts receivable** | | |
| Andlauer Management Group Inc. | 60 | 7 |
| TDS Logistics Ltd. | 380 | 263 |
| Andlauer Properties and Leasing Inc. | - | 113 |
| 9143-5271 Quebec Inc. | 1 | - |
| Trade receivables due from related parties | 441 | 81 |
| **Due from related parties** | | |
| Andlauer Management Group Inc. | 53 | 52,603 |
| C-GHBS Inc. | - | 1,405 |
| Andlauer Properties and Leasing Inc. | 186 | 685 |
| Habdog Investments Inc. | - | 236 |
| TDS Logistics Ltd. | - | 28 |
| | 239 | 54,957 |
| **Total due from related parties** | **680** | **55,340** |
| **Accounts payable and accrued liabilities** | | |
| Ready Staffing Solutions Inc. | 397 | 330 |
| 1708998 Ontario Limited (Medical Courier Services) | - | 24 |
| McAllister Courier Inc. | 71 | 92 |
| TDS Logistics Ltd. | 100 | - |
| Andlauer Properties and Leasing Inc. | 1,196 | 32 |
| Andlauer Management Group Inc. | 1 | - |
| D.C. Racking & Maintenance Inc. | 1 | 1 |
| Logiserv Inc. | 69 | 70 |
| Bulldog Hockey Inc. | 28 | 28 |
| C-GHBS Inc. | 153 | - |
| Trade payables due to related parties | 2,016 | 577 |
| **Due to related parties** | | |
| M. Andlauer | 161 | 20 |
| TDS Logistics Ltd. | 174 | - |
| Andlauer Management Group Inc. | - | 300 |
| | 335 | 320 |
| **Total due to related parties** | **2,351** | **897** |

## Critical Accounting Judgements and Estimates

The preparation of the 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, the Company's 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 include the following:

- Determining the expected credit losses related to trade accounts receivable;
- Estimating the useful life of our property, plant and equipment and determining estimates and assumptions related to impairment tests for long-lived assets;
- Estimating the useful life of our intangible assets and determining estimates and assumptions related to impairment tests for intangibles and goodwill;
- Determining the valuation of share-based compensation arrangements;
- Determining estimates and assumptions in measuring deferred tax assets and liabilities;
- Estimating our incremental borrowing rate in connection with measuring lease liabilities; and
- Recognition and measurement of provisions and contingencies.

**Significant New Accounting Standards Not Yet Adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2019 reporting periods and that we did not adopt early. Our assessment of the impact of these new standards and interpretations is set out below:

*Amendments to IFRS 3, Business Combinations – Change in definition of business*

In October 2018, the IASB issued amendments to IFRS 3 Business Combinations that seek to clarify whether a transaction results in an asset or a business acquisition.

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The amendment applies to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. The application of this amendment is not expected to have a material impact on our consolidated financial statements.

*Amendments to IAS 1 and IAS 8 - Definition of 'Material'*

In October 2018, the IASB refined its definition of material to make it easier to understand. In the amendment, IASB promoted the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the IASB increased the threshold of 'could influence' to 'could reasonably be expected to influence'. The amendments are effective from January 1, 2020 but may be applied earlier. The application of this amendment is not expected to have a material impact on our consolidated financial statements.

**Accounting Classifications and Fair Values**

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

**Risk Factors**

For a detailed description of risk factors associated with the Company, refer to the "Risk Factors" section of our AIF, which is available on the Company's profile on SEDAR at www.sedar.com.

In addition to the other risks that we face, which are detailed in the AIF under the heading "Risk Factors", we have exposure, through our financial assets and liabilities, to the following risks from our use of financial instruments: credit risk, liquidity risk, interest rate risk, and currency risk. Senior management monitors risk levels and reviews risk management activities as they determine to be necessary.

*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 entered into the Credit Facilities upon closing of our IPO, comprised of the Revolving Credit Facility and the Term Facility. As at December 31, 2019, the aggregate amount outstanding under the Credit Facilities was approximately $3.9 million under the Revolving Credit Facility and $25 million under the Term Facility). The Credit Facilities will mature and be due and payable on December 11, 2023. The Revolving Credit Facility is available to be drawn in Canadian dollars by way of prime rate loans, bankers' acceptances and letters of credit, and in U.S. dollars by way of base rate loans, LIBOR based 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 on closing of the IPO by way of prime rate loans and bankers' acceptances.

We have entered into Credit Facilities with affiliates of RBC and CIBC, comprised of a Revolving Credit Facility in the aggregate principal amount of up to $75 million and a Term Facility in the aggregate principal amount of up to $25 million. The Facilities are available to be drawn in Canadian dollars by way of prime rate loans, bankers' acceptances and letters of credit, and in U.S. dollars by way of base rate loans, LIBOR based 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 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 the Company is 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.

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

*Interest rate risk*

The Company has a Revolving Credit Facility and Term Facility that each bear interest at a floating rate subject to fluctuations in the bank prime rate. Changes in the bank prime lending rate can cause fluctuations in interest payments and cash flows. The Company does not use derivative financial instruments to mitigate the effect of this risk. The facilities under our Credit Facilities bear interest at prime plus 0.45% per annum. At December 31, 2019, the interest rate was 4.4%.

Due to timing at which the Company entered into the Credit Facilities in relation to its year end, there has been no exposure to significant interest rate fluctuations.

*Currency risk*

The Company enters into foreign currency purchase and sale transactions and has 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. The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk.

**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 March 12, 2020, there were 12,500,000 Subordinate Voting Shares issued and outstanding, 25,100,000 Multiple Voting Shares issued and outstanding (each of which is convertible into Subordinate Voting Shares on a one-for-one basis), and no preferred shares issued and outstanding. In addition, as at such date we had 1,650,000 options issued and outstanding under the Company's omnibus incentive plan, each of which can be exercised or settled for one Subordinate Voting Share. As of the date hereof, AMG holds all of the Multiple Voting Shares and 75,000 of the Subordinate Voting Shares, representing approximately 67% of the issued and outstanding Shares and 89% of the voting power attached to all of the Shares.

Subject to financial results, capital requirements, available cash flow, corporate law requirements and any other factors that the board of directors of the Company may consider relevant, the Company expects to declare a quarterly dividend on the Subordinate Voting Shares and Multiple Voting Shares equal to

approximately $0.05 per share on an ongoing basis. The first dividend that will be payable will be the dividend for the period beginning on December 11, 2019, and ending on March 31, 2020 to shareholders of record on March 31, 2020. This first dividend will be equal to an aggregate amount of approximately $2,288,712 (or $0.06087 per Share). Dividends will be 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 accordance with Item 4.3 of National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("**NI 52-109**"), the Company will file an annual certificate in the Form 52-109F1 - IPO/RTO relating to its AIF, annual financial statements and the accompanying notes and this MD&A because it is the first financial year that has ended after the Company became a reporting issuer.

In particular, the certifying officers filing the certificate in the Form 52-109F1 - IPO/RTO required under NI 52-109 are not making any representations relating to the establishment and maintenance of:

- controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

**Additional Information**

Additional information about the Company can be found on our profile on SEDAR at www.sedar.com or on our website at www.andlauerhealthcare.com. The Company's AIF for Fiscal 2019 is available on our profile on SEDAR at www.sedar.com.