Andlauer
HEALTHCARE GROUP

Q2 2020 REPORT

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ANDLAUER HEALTHCARE GROUP INC.

Management's Discussion and Analysis
of Financial Condition and Results of Operations
for the three and six month periods ended June 30, 2020

August 12, 2020

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

This management's discussion and analysis of financial condition and results of operations ("MD&A") for the three and six month periods ended June 30, 2020 should be read in conjunction with Andlauer Healthcare Group Inc.'s unaudited interim condensed consolidated financial statements for the three and six month periods ended June 30, 2020, along with the related notes thereto and the audited annual consolidated financial statements, related notes thereto and MD&A for the year ended December 31, 2019. This MD&A is presented as of August 12, 2020 and is current to that date unless otherwise stated.

All references in this MD&A to the "Company", "AHG", "us", "our" or "we" refer to Andlauer Healthcare Group Inc., together with our direct and indirect subsidiaries, on a consolidated basis, which is referred to as "the Company" in our financial statements. Additionally, all references to "Q2 2020" are to the three months ended June 30, 2020; "Q2 2019" are to the three months ended June 30, 2019; "Q1 2020" are to the three months ended March 31, 2020; "Q1 2019" are to the three months ended March 31, 2019; "Q4 2019" are to the three months ended December 31, 2019; "YTD 2020" are to the six months ended June 30, 2020; "YTD 2019" are to the six months ended June 30, 2019; and "Fiscal 2019" are to the year ended December 31, 2019.

Cautionary Note Regarding Forward-Looking Information

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

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

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

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

- the impact of the COVID-19 pandemic on the operations, business and financial results of the Company;
- the impact of changing conditions in the healthcare logistics and transportation services market;
- the Company's ability to execute its growth strategies;
- 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 (the "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 unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020 and 2019 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 our unaudited interim condensed financial statements for the three and six months ended June 30, 2020 and 2019, our financial statements are presented as consolidated financial statements. AHG's acquisition of the AHG Entities (as defined below) in connection with our 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" and "EBITDA Margin". These non-IFRS measures are used to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation.

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

For quantitative reconciliations of net income and comprehensive income to EBITDA for Q2 2020, YTD 2020, Q2 2019, and YTD 2019, 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".

Employee Trust

In connection with the IPO, as disclosed in AHG's IPO prospectus dated December 4, 2019 (the "IPO Prospectus"), the Employee Trust borrowed $13,875,000 from AHG (the "Employee Trust Loan") and used the proceeds to acquire 925,000 Subordinate Voting Shares from AMG for the benefit of certain executive officers and employees of AHG and the AHG Entities.

At the time of the IPO, it was expected that following the expiration of the 180-day contractual lock-up period described in the "Plan of Distribution – Lock-up Arrangements" section of the IPO Prospectus, as Subordinate Voting Shares began to be allocated and/or distributed to beneficiaries of the Employee Trust, corresponding contributions would be made by the respective employer of the beneficiary to the Employee Trust equal to $15.00 per Subordinate Voting Share which funds would then be used by the Employee Trust to repay the Employee Trust Loan. While these contributions would have resulted in an expense (expected to have equalled $13,875,000 in the aggregate) for the employer of a beneficiary (being either AHG or an AHG Entity), the obligation to make these contributions was effectively offset by an Employee Trust Loan receivable presented on the Company's closing balance sheet.

During Q2 2020, the Trustees of the Employee Trust initiated steps to terminate the obligation for AHG, or an AHG entity, to make contributions to the Employee Trust in order to simplify the Employee Trust structure. On June 23, 2020, the Employee Trust sold an aggregate of 508,000 Subordinate Voting Shares pursuant to a number of private agreements at a price of $32.00 per Subordinate Voting Share for aggregate proceeds of $16,256,000 (the "Employee Trust Disposition"). The Employee Trust continues to hold the remaining 417,000 Subordinate Voting Shares for the benefit of executive officers and employees of AHG and the AHG entities.

On June 25, 2020, $13,875,000 of the proceeds of the Employee Trust Disposition were used to repay the Employee Trust Loan. As a result of the simplified Employee Trust structure, including the repayment of the Employee Trust Loan, no expense will be incurred by either AHG or an AHG Entity in connection with any allocation or distribution of Subordinate Voting Shares to a beneficiary by the Employee Trust. Accordingly, AHG will forego an income tax benefit of approximately $3,600,000 in connection with contributions that would have been made to the Employee Trust, and has instead received cash of $13,875,000 from the Employee Trust in connection with the Employee Trust Disposition.

As a result of both the termination of the contribution obligations from AHG, or an AHG entity, and the repayment of the Employee Trust Loan to AHG, there is no ongoing contractual relationship between AHG, or any AHG entity, and the Employee Trust.

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 sector.

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

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.

Our competitive strengths in temperature management, quality assurance and regulatory compliance, visibility throughout the supply chain and security are deployed across our nation-wide network of 28 secure, temperature-controlled facilities, the five third-party owned cross-docks that we operate from and by our team of highly-trained employees. Our security, information and monitoring systems, as well as our temperature management expertise, allow us to meet and exceed Health Canada guidelines and regulations, ensuring the integrity and quality of our clients' temperature sensitive healthcare goods and data.

Additional information about the Company, including our AIF, can be found on our profile on SEDAR at www.sedar.com or on our website at www.andlauerheathcare.com.

Summary of Factors Affecting Performance

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

Service Offering

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

Relationships with Manufacturers and Distributors

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

New Development Projects

We secure client contract wins as a foundation for growth and then add incremental warehousing and distribution square footage through capital efficient leases. Given the required lead-time to build and license facilities, as we secure new major client contracts, we typically strategically invest in excess capacity in anticipation of growing client needs, as well as new client opportunities, which enables capital efficient growth. We have followed this strategic approach in the past and continue to leverage our intellectual capital in the development of our new 220,000 square foot facility in Brampton, Ontario, which became operational in July 2020.

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 set out rules relating to, among other things, the packaging, warehousing, distribution, transportation and temperature monitoring of such products. The pace of introduction and complexity of such regulations has increased in recent years, including through the introduction of, and revisions to, many Health Canada guidelines, such as Health Canada's GUI-0069 - Guidelines for Environmental Control of Drugs During Storage and Transportation ("GUI-0069"), among others. Recognizing the ever-changing regulatory demands on the healthcare sector, we take a proactive approach to stay aligned with regulatory protocols, provide environments that are compliant with Good Manufacturing Practices and offer our clients' real-time monitoring and reporting. By outsourcing their logistics and transportation needs to AHG and its specialized services platform, 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 Truck Lines Ltd., 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 and maintain open lines of communication that encourage our employees to suggest ways in which we can improve our operations. We recognize and celebrate employees who act as leaders within our team and promote movement within our organization in an effort to retain and encourage our top talent. As a result of this collaborative employee culture, we have fostered strong relationships with our employees across our operating segments, none of which are subject to collective bargaining agreements.

Cost Management

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

To mitigate the risk of cost escalation, we focus on operational excellence, synergies between our product lines and cost controls. We rely on, among other things, long-term planning, budgeting processes, and internal benchmarking to achieve our profitability targets. Additionally, we mitigate the risk of inflation by utilizing leases to finance our network of facilities, 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 escalation 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 opportunities, 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. We 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.

Q2 2020 Compared to Q2 2019

Select highlights include the following:

- Revenue decreased 1.3% to $70.3 million, compared to $71.1 million in Q2 2019;
- Operating income decreased 2.8% to $11.1 million, compared to $11.4 million in Q2 2019;
- Net income and comprehensive income decreased 11.3% to $7.1 million, compared to $8.0 million in Q2 2019;
- EBITDA increased 1.2% to $18.0 million, compared to $17.7 million in Q2 2019, despite the absorption of approximately $1.4 million of incremental costs related to share-based compensation arrangements and the transition to a public company;
- EBITDA Margin was 25.6% in Q2 2020, compared to 24.9% in Q2 2019;
- We successfully implemented our new 220,000 square foot state-of-the-art logistics and distribution facility in Brampton, Ontario which began operations in July 2020;
- We declared our second dividend as a public company on June 22, 2020 for shareholders of record on June 30, 2020; and
- We continued our business continuity incident response management in connection with the ongoing COVID-19 pandemic and successfully maintained service levels while proactively implementing measures across our operations to prioritize the health and safety of our personnel, clients, and suppliers.

YTD 2020 Compared to YTD 2019

Select highlights include the following:

- Revenue increased 6.6% to $151.9 million, compared to $142.5 million in YTD 2019;
- Operating income increased 5.2% to $23.5 million, compared to $22.3 million in YTD 2019;

- Net income and comprehensive income decreased 1.7% to $15.3 million, compared to $15.5 million in YTD 2019;
- EBITDA increased 5.2% to $36.8 million, compared to $35.0 million in YTD 2019, despite the absorption of approximately $2.9 million of incremental costs related to share-based compensation arrangements and the transition to a public company;
- EBITDA Margin was 24.2% in YTD 2020, compared to 24.5% in YTD 2019.

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 consolidation.

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 consolidation.

As is customary in our industry, most of our client contracts and transportation pricing terms include fuel-surcharge revenue programs or cost recovery mechanisms to mitigate the effect of fuel price increases over base amounts established in the contract. However, these fuel surcharge mechanisms may not capture the entire amount of changes in fuel prices, and there is also a lag between the payment for fuel and collection of surcharge revenue. 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 services, including fuel surcharges, sourced from carriers. ATS Healthcare is the largest provider of transportation services to Accuristix. Intersegment purchased transportation expense is eliminated on consolidation.

Direct Operating Expenses

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

Selling, General and Administrative Expenses

Selling, General and Administrative 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. Our SG&A expenses have increased as a percentage of revenue from historical levels 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 our 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 prior to our IPO. We expect interest income to decline over the course of the 2020 fiscal year.

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 expense for amounts due to related parties was included during Fiscal 2019, but no longer impacts our expenses subsequent to our IPO as loans from related parties were discharged in connection with the Pre-IPO Reorganization. In connection with our IPO, we entered into the Credit Facilities. Accordingly, the Company began to incur interest expense on the Credit Facilities on 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.

Deferred tax assets have not been recognized in respect of certain items. The Company is evaluating alternatives under which sufficient future taxable profit will be available against which the Company can use the benefits therefrom. The Company has not recognized certain deductible temporary differences comprising costs incurred by the Company related to the acquisition of the AHG Entities and charged directly to equity in connection with the Pre-IPO Reorganization.

Non-IFRS Measures

<u>EBITDA</u>

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.

Selected Consolidated Financial Information

The following table summarizes our results of operations for the periods indicated. The selected consolidated financial information for Q2 2020, Q2 2019, YTD 2020 and YTD 2019 has been derived from our unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020 and 2019 and related notes.

($CAD 000s)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2020	**2019**	**2020**	**2019**
Revenue				
Logistics & Distribution	21,660	22,393	45,227	43,940
Packaging Solutions	3,851	5,299	11,195	11,714
Healthcare Logistics Segment	25,511	27,692	56,422	55,654
Ground Transportation	39,504	40,932	85,833	81,746
Air Freight Forwarding	5,390	4,559	10,655	9,572
Dedicated and Last Mile Delivery	6,192	4,164	12,459	7,846
Intersegment Revenue	(6,344)	(6,200)	(13,466)	(12,275)
Specialized Transportation Segment	44,742	43,455	95,481	86,889
Total revenue	**70,253**	**71,147**	**151,903**	**142,543**
Operating expenses				
Cost of transportation and services	28,498	29,523	62,038	59,214
Direct operating expense	17,006	18,623	38,603	37,927
Selling, general and administrative expenses	6,771	5,249	14,487	10,441
Depreciation & amortization	6,889	6,348	13,282	12,635
	59,164	59,743	128,410	120,217
Operating income	**11,089**	**11,404**	**23,493**	**22,326**
Interest expense	(1,212)	(841)	(2,419)	(1,703)
Interest income	34	292	186	550
Other expense	(19)	(7)	(17)	(8)
Income tax expense	(2,825)	(2,880)	(5,994)	(5,658)
Net income and comprehensive income	**7,067**	**7,968**	**15,249**	**15,507**

($CAD 000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income and comprehensive income attributable to				
Shareholders of the Company	7,067	7,654	15,249	14,935
Non-controlling interests	-	314	-	572
Earnings per share[(1)] – basic	$ 0.19	N/A	$ 0.41	N/A
Earnings per share[(1)] – diluted	$ 0.18	N/A	$ 0.40	N/A
Select financial metrics				
EBITDA	17,959	17,745	36,758	34,953
EBITDA Margin	25.6%	24.9%	24.2%	24.5%

(1) Earnings per share data is not presented for 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

Consolidated Balance Sheets

($CAD 000s)	As At June 30,	
	2020	2019
Select financial position data		
Total assets	227,835	255,767
Total non-current liabilities	102,938	59,933

Consolidated Statements of Changes in Equity

($CAD 000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Select financial data				
Distributions to related parties	-	30,000	-	30,000
Dividends	1,880	-	4,169	-

Reconciliation of Non-IFRS Measures

The following table provides a reconciliation of net income and comprehensive income for Q2 2020, Q2 2019, YTD 2020 and YTD 2019:

($CAD 000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income and comprehensive income	7,067	7,968	15,249	15,507
Income tax expense	2,825	2,880	5,994	5,658
Interest expense	1,212	841	2,419	1,703
Interest income	(34)	(292)	(186)	(550)
Depreciation & amortization	6,889	6,348	13,282	12,635
EBITDA	17,959	17,745	36,758	34,953

Results of Operations

Three months ended June 30, 2020 compared with 2019

The following section provides an overview of our financial performance for Q2 2020 and Q2 2019.

<u>Revenue</u>

Revenue for Q2 2020 decreased by 1.3% to $70.3 million compared with Q2 2019. Revenue was impacted by the cancellation of certain healthcare activities such as elective surgical procedures; closures of clinics which use certain products of AHG's clients, such as dental clinics, optometric clinics, animal health clinics and veterinary hospitals; and the accelerated purchasing activities of AHG's clients' customers late in Q1 2020 in response to the COVID-19 pandemic.

Healthcare Logistics Segment

Revenue in our healthcare logistics segment for Q2 2020 was $25.5 million, a decrease of 7.9%, or approximately $2.2 million, compared with Q2 2019. The decline in revenue for this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for Q2 2020 was $21.7 million, a decrease of 3.3%, or approximately $0.7 million, compared with Q2 2019. This revenue decrease reflects reduced inbound, storage and handling activities of our existing clients. In March 2020, handling and transportation revenues increased by $1.0 million or 17.5% compared with March 2019, as our clients' customers ordered unusually high quantities of health care products in response to the COVID-19 pandemic. The spike in March 2020 activity negatively impacted activities in Q2 2020 as our clients' customers reduced inventories to more normal levels.

Packaging Solutions

Packaging revenue for Q2 2020 was $3.9 million, a decrease of 27.3%, or approximately $1.5 million, compared with Q2 2019. Q2 2020 revenue was significantly impacted by measures we took to provide for the safety of our employees in connection with the COVID-19 pandemic. We limited the number of associates in our operations to allow for social distancing in accordance with public health guidelines thereby temporarily reducing our operating capacity and our ability to generate revenue.

Specialized Transportation Segment

Revenue in our specialized transportation segment for Q2 2020 was $44.7 million, an increase of 3.0%, or approximately $1.3 million, compared with Q2 2019. Revenue growth in this segment was primarily driven by the factors set out below.

Air Freight Forwarding

Air freight forwarding revenue for Q2 2020 was $5.4 million, an increase of 18.2%, or approximately $0.8 million, compared with Q2 2019. This revenue increase was partially attributed to contractual price increases (adjustments made to accessorial charges and rate agreements), including new surcharges implemented by our air carriers in connection with revised Transport Canada hours-of-service based pilot safety rules. Air freight forwarding volume increased by approximately 10% in Q2 2020 versus Q2 2019 as customers expedited shipments of personal protective equipment and other products in response to demand related to the COVID-19 pandemic. Volume for the month of June 2020 increased by approximately 40% over June 2019 as wholesalers responded to adjustments by retail pharmacies to return to 90-day prescription fulfillment, which had previously been restricted to 30-days by several provincial governments in response to the COVID-19 pandemic.

Ground Transportation

Ground transportation revenue for Q2 2020 was $39.5 million, a decrease of 3.5%, or approximately $1.4 million, compared with Q2 2019. The decrease was primarily driven by lower fuel costs, resulting in lower revenue for the quarter as Q2 2020 volume was essentially flat compared with Q2 2019. Volume in April and May 2020 was approximately 15% lower versus April and May 2019; however, volume increases in June 2020 partially offset the lower volume from earlier in the quarter as provincial governments began to lift COVID-19 restrictions, allowing businesses to reopen.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for Q2 2020 was $6.2 million, an increase of 48.7%, or approximately $2.0 million, compared with Q2 2019. Revenue growth reflects expanded routes for existing clients which commenced in the second half of 2019. 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 Q2 2020 was $28.5 million, or 40.6% of revenue, compared with $29.5 million, or 41.5% of revenue, for Q2 2019. The lower cost of transportation and services operating ratios for Q2 2020 reflect lower fuel costs in line with the decrease in revenue related to fuel, savings achieved by effectively managing our variable costs in response to reduced volume in April and May 2020 and the successful management of our costs as volume ramped up in June 2020.

Direct Operating Expenses

Direct operating expenses for Q2 2020 were $17.0 million, or 24.2% of revenue, compared with $18.6 million, or 26.2% of revenue, for Q2 2019. We have incurred certain incremental costs in connection with our COVID-19 response measures, including additional cleaning activities for our facilities and equipment, expenses for personal protective equipment for our associates, and other measures impacting productivity; however, these incremental costs were mitigated through operating leverage arising from incremental volume in June 2020, productivity management and other cost controls. During Q2 2020, we qualified for the Canada Emergency Wage Subsidy ("CEWS") program in connection with our Nova Pack operations. We recognize government assistance as a reduction to the related expense that the assistance is intended to offset. A total of $0.8 million, or 1.2% of revenue, was recognized as a reduction of direct operating expense for Q2 2020 under the CEWS program.

Selling, General and Administrative Expenses

SG&A expenses for Q2 2020 were $6.8 million, or 9.6% of revenue, compared with $5.2 million, or 7.4% of revenue, for Q2 2019. SG&A expenses for Q2 2020 include share-based compensation arrangements of approximately $0.8 million, or 1.1% of revenue, which are incremental to the historical SG&A expenses reflected in our operating income. These share-based compensation arrangements relate to the initial option grants to our senior management team and deferred share unit grants made to our board of directors, which are intended to provide further alignment with shareholders. A further $0.6 million of cost, or 0.9% of revenue, is included in Q2 2020 SG&A expenses for incremental costs associated with being a public company. Approximately $0.2 million of the public company SG&A expenses reflected in Q2 2020 were one-time in nature.

Depreciation and Amortization

Depreciation and amortization for Q2 2020 was $6.9 million compared with $6.3 million for Q2 2019. The increase in depreciation and amortization for Q2 2020 represents an 8.5% 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. In addition, we took possession of our new 220,000 square foot logistics and distribution facility in Brampton, Ontario, which began to generate new business revenue in July 2020.

Other Income/Expense

Other income for Q2 2020 was effectively $nil compared with other expense of effectively $nil for Q2 2019. These amounts are immaterial to our overall performance for these quarters.

Interest Income

Interest income for Q2 2020 was effectively $nil compared with $0.3 million for Q2 2019. Interest income is generated on our cash and cash equivalents balances, but includes interest on certain related party loans in 2019 prior to the IPO.

Interest Expense

Interest expense for Q2 2020 was $1.2 million compared with $0.8 million for Q2 2019. Interest expense related to leased facilities and equipment comprises the majority of interest expense; however, $0.1 million of interest expense was incurred in Q2 2020 in connection with the Credit Facilities which were entered into in connection with the IPO. We expect to continue to hold debt under the Term Facility, which does not have any repayment schedule except as a single repayment at the end of the term, and will incur interest expense on the Term Facility for the duration of the term (four years).

Income Tax Expense

Income tax expense for Q2 2020 was $2.8 million compared with $2.9 million for Q2 2019. Our effective tax rate for Q2 2020 is approximately 2.1% higher than the expected statutory rate of approximately 26.5%, reflecting an increase in taxes resulting from the share-based expenses related to options which are non-deductible items. Our effective tax rate for Q2 2019 approximates the expected statutory rate.

Operating Income and Net Income and Comprehensive Income

Operating income for Q2 2020 was $11.1 million, a decrease of $0.3 million, or 2.8%, compared with $11.4 million for Q2 2019.

Net income and comprehensive income for Q2 2020 decreased by 11.3%, or $0.9 million, to $7.1 million, from $8.0 million for Q2 2019. Lower segment net income before eliminations for our healthcare logistics operating segment was offset by higher segment net income before eliminations for our specialized transportation operating segment.

EBITDA

EBITDA for Q2 2020 increased by 1.2%, to $18.0 million, from $17.7 million for Q2 2019. EBITDA increased over the year due to the factors discussed above and reflects the absorption of approximately $1.4 million of incremental costs related to share-based compensation arrangements and other public company costs not incurred in Q2 2019.

EBITDA Margin

EBITDA Margin for Q2 2020 was 25.6% compared with 24.9% for Q2 2019. Operating ratios for our two most significant operating costs (cost of transportation and services and direct operating expenses) were lower in Q2 2020 versus Q2 2019 notwithstanding slightly lower revenue.

Six months ended June 30, 2020 compared with 2019

The following section provides an overview of our financial performance for YTD 2020 and YTD 2019.

Revenue

Revenue for YTD 2020 increased by 6.6% to $151.9 million compared with YTD 2019. Although revenue within and between Q1 2020 and Q2 2020 was impacted by the COVID-19 pandemic, year-to-date revenue growth is within the range of our historical growth trend and is in line with our expectations.

Healthcare Logistics Segment

Revenue in our healthcare logistics segment for YTD 2020 was $56.4 million, an increase of 1.4%, or approximately $0.8 million, compared with YTD 2019. Revenue growth in this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for YTD 2020 was $45.2 million, an increase of 2.9%, or approximately $1.3 million, compared with YTD 2019. There were no new client implementations in YTD 2020. Accordingly, revenue for the logistics and distribution product comprised growth attributed to our existing client base. We expect revenue growth to increase in the third quarter of 2020 as a large new logistics and distribution client contract became operational in July 2020.

Packaging Solutions

Packaging revenue for YTD 2020 was $11.2 million, a decrease of 4.4%, or approximately $0.5 million, compared with YTD 2019. Revenue growth of 14.5% in Q1 2020 arising from the decision of our largest packaging client to defer certain projects from Q4 2019 was offset by a 27.3% decline in Q2 2020 revenue due to the impact of the COVID-19 pandemic. During Q2 2020 we limited the number of associates in our operations to allow for social distancing in accordance with public health guidelines which temporarily reduced our operating capacity and our ability to generate revenue.

Specialized Transportation Segment

Revenue in our specialized transportation segment for YTD 2020 was $95.5 million, an increase of 9.9%, or approximately $8.6 million, compared with YTD 2019. Revenue growth in this segment was primarily driven by the factors set out below.

Air Freight Forwarding

Air freight forwarding revenue for YTD 2020 was $10.7 million, an increase of 11.3%, or approximately $1.1 million, compared with YTD 2019. Approximately half of this revenue increase was attributed to contractual price increases (adjustments made to accessorial charges and rate agreements), including new surcharges implemented by our air carriers in connection with revised Transport Canada hours-of-service based pilot safety rules. The remaining revenue increase was attributable to an increase in air freight forwarding volume, driven by greater volume in June 2020 compared to June 2019, as wholesalers responded to adjustments by retail pharmacies to return to 90-day prescription fulfillment, which had previously been restricted to 30-days by several provincial governments in response to the COVID-19 pandemic.

Ground Transportation

Ground transportation revenue for YTD 2020 was $85.8 million, an increase of 5.0%, or approximately $4.1 million, compared with YTD 2019. The increase in revenue was primarily driven by increased Q1 2020 volume compared with Q1 2019, partially offset by lower Q2 2020 ground transportation fuel-related revenue compared with Q2 2019.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for YTD 2020 was $12.5 million, an increase of 58.8%, or approximately $4.6 million, compared with YTD 2019. Revenue growth reflects expanded routes for existing clients which commenced in the second half of 2019. 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 YTD 2020 was $62.0 million, or 40.8% of revenue, compared with $59.2 million, or 41.5% of revenue, for YTD 2019. The lower cost of transportation and services operating ratios reflect lower fuel costs for Q2 2020 in line with the decrease in Q2 2020 ground transportation revenue related to fuel, but are otherwise in line with prior years with no significant fluctuations in costs versus revenue. Cost of transportation and services operating ratio for YTD 2020 was also impacted by cost savings achieved by effectively managing our variable costs in response to reduced volume in April and May 2020 and the successful management of our costs as volume ramped up in the months of March and June 2020.

Direct Operating Expenses

Direct operating expenses for YTD 2020 were $38.6 million, or 25.4% of revenue, compared with $37.9 million, or 26.6% of revenue, for YTD 2019. 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. We have incurred certain incremental costs in connection with our COVID-19 response measures, including compensation premiums for certain operational associates, additional cleaning activities for our facilities and equipment, expenses for personal protective equipment for our associates, and other measures impacting productivity; however, these incremental costs were mitigated through operating leverage arising from incremental volume, productivity management and other cost controls. During Q2 2020, we qualified for the CEWS program in connection with our Nova Pack operations. A total of $0.8 million, or 0.6% of revenue, has been recognized as a reduction of direct operating expense for YTD 2020 under the CEWS program.

Selling, General and Administrative Expenses

SG&A expenses for YTD 2020 were $14.5 million, or 9.5% of revenue, compared with $10.4 million, or 7.3% of revenue, for YTD 2019. SG&A expenses for YTD 2020 include share-based compensation arrangements of approximately $1.6 million, or 1.0% of revenue, which are incremental to the historical SG&A expenses reflected in our operating income. These share-based compensation arrangements relate to the initial option grants to our senior management team and deferred share unit grants made to our board of directors, which are intended to provide further alignment with shareholders. A further $1.3 million of cost, or 0.9% of revenue, is included in YTD 2020 SG&A expenses for incremental costs associated with being a public company. Approximately $0.4 million of the public company SG&A expenses reflected in YTD 2020 were one-time in nature.

Depreciation and Amortization

Depreciation and amortization for YTD 2020 was $13.3 million compared with $12.6 million for YTD 2019. The increase of $0.7 million for YTD 2020 represents a 5.1% year-over-year increase and is attributable to leases for new right-of-use logistics and transportation equipment to support growth in the specialized transportation segment. In addition, we took possession of our new leased 220,000 square foot logistics and distribution facility in Brampton, Ontario, which began to generate new business revenue in July 2020.

Other Income/Expense

Other income for YTD 2020 was effectively $nil compared with other expense of effectively $nil for YTD 2019. These amounts are immaterial to our overall performance for these quarters.

Interest Income

Interest income for YTD 2020 was $0.2 million compared with $0.6 million for YTD 2019. Interest income is generated on our cash and cash equivalents balances, but included interest on certain related party loans in 2019 prior to the IPO.

Interest Expense

Interest expense for YTD 2020 was $2.4 million compared with $1.7 million for YTD 2019. Interest expense related to leased facilities and equipment comprises the significant majority of interest expense; however, $0.4 million of interest expense was incurred in YTD 2020 in connection with the Credit Facilities which were entered into in connection with the IPO. We expect to continue to hold debt under the Term Facility, which does not have any repayment schedule except as a single repayment at the end of the term, and will incur interest expense on the Term Facility for the duration of the term (four years).

Income Tax Expense

Income tax expense for YTD 2020 was $6.0 million compared with $5.7 million for YTD 2019. Our effective tax rate for YTD 2020 is approximately 1.7% higher than the expected statutory rate of approximately 26.5%, reflecting an increase in taxes resulting from the share-based expenses related to options which are non-deductible items. Our effective tax rate for YTD 2019 approximates the expected statutory rate.

We have not recognized any benefit related to deductible temporary differences, comprising IPO transaction costs, which were charged directly to equity in Fiscal 2019. We are evaluating alternatives under which sufficient future taxable profit will be available against, which we can use the benefits therefrom.

Operating Income and Net Income and Comprehensive Income

Operating income for YTD 2020 was $23.5 million, an increase of $1.2 million, or 5.2%, compared with $22.3 million for YTD 2019.

Net income and comprehensive income for YTD 2020 decreased by 1.7%, or $0.3 million, to $15.2 million, from $15.5 million for YTD 2019. Segment net income before eliminations for both our specialized transportation and our healthcare logistics operating segments were in line with segment revenue as margins were materially consistent compared with the prior year.

EBITDA

EBITDA for YTD 2020 increased by 5.2%, to $36.8 million, from $35.0 million for YTD 2019. The increase in EBITDA was due to the factors discussed above and also reflects the absorption of approximately $2.9 million of incremental costs related to share-based compensation arrangements and other public company costs not incurred in YTD 2019.

EBITDA Margin

EBITDA Margin for YTD 2020 was 24.2%, broadly in line with EBITDA Margin of 24.5% for YTD 2019 and is within our historical range of expected EBITDA Margins. Operating ratios for our two most significant operating costs (cost of transportation and services and direct operating expenses) were improved in YTD 2020 versus YTD 2019; however, these improvements were offset by increases in SG&A costs attributed to incremental public company costs.

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	2Q-20	1Q-20	4Q-19	3Q-19	2Q-19	1Q-19	4Q-18	3Q-18
Total revenue	70,253	81,650	76,601	70,844	71,147	71,396	72,095	66,222
Operating income	11,089	12,404	11,348	11,319	11,404	10,922	8,635	9,680
Net income and comprehensive income	7,067	8,182	7,075	7,763	7,968	7,539	5,919	6,561
Net income and comprehensive income attributed to shareholders of the Company	7,067	8,182	7,075	7,763	7,654	7,281	5,720	6,293
EBITDA	17,959	18,799	17,729	17,872	17,745	17,208	14,850	15,587
Earnings per share – basic[1]	$ 0.19	$ 0.22	$ 0.19	N/A	N/A	N/A	N/A	N/A
Earnings per share - diluted[1]	$ 0.18	$ 0.22	$ 0.19	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 YTD 2020 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 in the second half of Fiscal 2019. We believe that

Q1 2020 revenue was favourably impacted by accelerated buying behaviour of our clients' customers in connection with the COVID-19 pandemic, which negatively impacted Q2 2020 revenue as our clients' customers reduced inventories to more normal levels. Further, shipping volumes were lower in April and May 2020 as a result of the government-mandated lockdown and other COVID-19 related measures, but increased in June 2020 as restrictions were lifted by provincial governments.

Operating income, net income and comprehensive income, and EBITDA have continued to perform consistently with revenue growth over the past four quarters, and have effectively absorbed the IPO and incremental costs associated with being a public company since December 11, 2019.

Liquidity & Capital Resources

Overview

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

Working Capital

The following table presents our working capital position as at June 30, 2020 and 2019:

($CAD 000s)	**As At June 30,**	
	2020	**2019**
Cash and cash equivalents	39,231	33,172
Accounts receivable	46,445	45,515
Inventories	987	1,036
Prepaid expenses and other	3,791	4,443
Due from related parties	227	59,406
Accounts payable and accrued liabilities	(19,902)	(21,389)
Current portion of lease liabilities	(20,643)	(17,503)
Income taxes payable	(10,188)	(1,708)
Working Capital	39,948	102,972

As at June 30, 2020 we had $40.0 million of working capital compared to $103.0 million of working capital as at June 30, 2019. The $63.0 million decrease in working capital is primarily attributable to the Pre-IPO Reorganization in which distributions to related parties were made that significantly reduced our cash and amounts due from related party working capital balances.

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 June 30, 2020, the aggregate amount outstanding before financing costs under the Credit Facilities was $25 million under the Term Facility and $nil under the Revolving Credit 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 subsequently converted to bankers' acceptances.

The Credit Facilities are subject to customary negative covenants and include financial covenants requiring us to maintain at all times a maximum net leverage ratio and a minimum interest coverage ratio, tested on a quarterly basis. As at June 30, 2020, we are in compliance with all of our covenants under the Credit Facilities.

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

Capital Expenditures

Capital expenditures for Q2 2020 and YTD 2020 were $2.5 million and $3.3 million respectively (Q2 2019 and YTD 2019 – $0.5 million and $0.9 million respectively). 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 capital expenditures refers to capital expenditures necessary for us to sustain our assets in order to continue operating in our current form. We generally seek to maintain our facilities and equipment at a level consistent with the needs of the sector we operate within and ensure that preventative maintenance programs are in place to achieve the performance expected from our facilities and equipment. Outlays for maintenance capital expenditures for Q2 2020 and YTD 2020 were $0.2 million and $0.5 million respectively (Q2 2019 and YTD 2019 – $0.2 million and $0.4 million respectively). These capital expenditures were funded through cash flows from operations.

Capital Expenditures (Growth)

Growth capital expenditures 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, and computer equipment to support new contracts or additional volume from new business. Outlays for growth capital expenditures for Q2 2020 and YTD 2020 were $2.3 million and $2.8 million respectively (Q2 2019 and YTD 2019 – $0.2 million and $0.5 respectively) and can range from $1.0 million up to $10.0 million in any given fiscal year, depending on the underlying expansion need. Growth capital expenditures have also historically been funded through cash flows from operations. Growth capital expenditures for YTD 2020 primarily comprise leasehold improvements, warehouse racking, material handling equipment and furniture and fixtures related to our new 220,000 square foot facility in Brampton, Ontario which was implemented during Q2 2020. This new facility was in operation effective July 2020.

Cash Flows

The following table presents cash flows for the three and the six months ended June 30, 2020 and 2019:

($CAD 000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Cash flows				
Cash from Operating Activities	18,261	13,649	28,367	23,982
Cash used in Investing Activities	(2,658)	(470)	(3,538)	(970)
Cash from (used in) Financing Activities	6,831	(37,312)	(4,310)	(43,497)
Net change in cash	22,434	(24,133)	20,519	(20,485)
Select cash flow data				
Capital expenditures	(2,457)	(455)	(3,326)	(858)
Lease payments	(6,028)	(5,532)	(11,689)	(10,954)

Cash Flow Generated From Operating Activities

Cash flows generated from operating activities for Q2 2020 and YTD 2020 totaled $18.3 million and $28.4 million respectively (Q2 2019 and YTD 2019 - $13.6 million and $24.0 million respectively). The improvement in cash flows generated from operating activities relates principally to normal fluctuations in trade accounts receivable and trade accounts payable balances.

Cash Flow Used In Investing Activities

Cash flows used in investing activities for Q2 2020 and YTD 2020 totaled $2.7 million and $3.5 million respectively (Q2 2019 and YTD 2019 - $0.5 million and $1.0 million respectively). Cash flows were used primarily to support our maintenance and growth capital expenditures.

Cash Flow From (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. Total cash outflow for leases, including interest expense, for Q2 2020 and YTD 2020 was $6.0 million and $11.7 million respectively (Q2 2019 and YTD 2019 – $5.5

million and $11.0 million respectively). Further, we paid dividends in Q2 2020 and YTD 2020 of $1.9 million and $4.2 million respectively (distributions to related parties in Q2 2019 and YTD 2019 – $30,000 and $30,000 respectively) and fully repaid the balance on our Revolving Credit Facility in Q1 2020 ($3.9 million).

During Q2 2020, the Employee Trust Loan was repaid in full by the Employee Trust, using $13.9 million of the proceeds it received from the Employee Trust Disposition, resulting in net positive cash flow from financing activities overall.

Contractual Obligations

As at June 30, 2020, we had the following contractual commitments:

- Outstanding letters of guarantee in the amount of $180 (June 30, 2019 – $68).
- Commitments relating to the leasing of fleet equipment, ranging from 66 to 84 months, beginning upon delivery to us of the equipment in the third quarter of 2020, for total lease commitments of $0.7 million.

Credit facilities

As at June 30, 2020, the aggregate amount outstanding under the Credit Facilities was $25 million under the Term Facility and $nil under the Revolving Credit 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 Q2 2020, facility lease liabilities are calculated using our incremental borrowing rate of 3.29% (Q2 2019 – 3.77%). Equipment lease terms range from one to five years. For Q2 2020, equipment lease liabilities are calculated using our incremental borrowing rate of 4.21% (Q2 2019 – 4.66%) for our specialized transportation segment and 4.09% (Q2 2019 – 4.37%) for our healthcare logistics segment.

The following table summarizes our contractual obligations as at June 30, 2020 based on undiscounted cash flows:

($CAD 000s)	Total	Less than 1 Year	1-5 Years	More than 5 years
Credit Facilities	25,000	-	25,000	-
Lease liabilities	112,124	24,412	66,284	21,428
Lease commitments	648	108	540	-
Other obligations	30,191	30,090	101	-
Total contractual obligations	167,963	54,610	91,925	21,428

Off-Balance Sheet Arrangements

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

Seasonality

There is no significant seasonality to our business.

Financial Instruments

Financial assets

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

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

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

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

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

Impairment of financial assets

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

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

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

Financial liabilities

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

Related Party Transactions

Intercompany balances and transactions have been eliminated in our unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020 and 2019.

During YTD 2020 and YTD 2019, we entered into transactions with related parties that were incurred in the normal course of business. Our policy is to conduct all transactions and settle all balances with related parties at market terms and conditions. All outstanding balances with these related parties are measured at amortized cost and are to be settled in cash within two months of the reporting date. None of the balances are secured. No expense has been recognized in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

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

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

Andlauer Management Group Inc.

As of the date hereof, 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 CEO and a director of the Company.

During 2019, AMG provided key management personnel to us for which it received management fees. We paid management fees of $354 for YTD 2019 to AMG in connection with compensation for key management personnel. We no longer purchase key management personnel services from AMG in 2020. All employees involved in the AHG business previously employed by AMG became our employees effective at the time of the IPO.

In 2019, we recovered facility lease costs from AMG of $160. Recovery of such lease costs has discontinued in 2020 as the facility has been utilized by the Company.

We undertake a limited amount of administrative shared services for AMG. We expect to continue to incur and recover such costs in connection with AMG. For YTD 2020, we charged AMG $6 (YTD 2019 - $6) for recovery of shared services costs.

Andlauer Properties and Leasing Inc.

Andlauer Properties and Leasing Inc. ("APLI") is a subsidiary of AMG and leases certain facilities and logistics and transportation equipment to us. We also lease facilities and logistics and transportation equipment from arm's length providers. During YTD 2020, we expensed $870 (YTD 2019 - $691) for leases of logistics and transportation equipment; and $709 (YTD 2019 - $224) 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. For YTD 2020 we charged APLI $10 (YTD 2019 - $10) for recovery of shared services costs.

9143-5271 Québec Inc.

9143-5271 Québec Inc. is a subsidiary of AMG and leases a facility located at 655 Desserte E. Hwy 13, Laval, Québec to the Company. We also lease facilities from arm's length providers. During YTD 2020, we expensed $702 (YTD 2019 - $574) for this building. We expect to continue leasing this property.

For YTD 2020, we charged 9143-5271 Québec Inc. $16 (YTD 2019 - $16) for recovery of shared services costs.

Ready Staffing Solutions Inc.

Ready Staffing Solutions Inc. ("RSS"), a company owned by Mr. Andlauer's spouse, provides us with temporary agency employee services – providing hourly dock labour for our handling operations, principally in the Greater Toronto Area (the "GTA"). We also purchase temporary agency employee services from arm's length providers. During YTD 2020, we expensed $1,985 (YTD 2019 - $2,017) for purchases of temporary agency employee services from RSS. We expect to continue purchasing temporary agency services from RSS.

1708998 Ontario Limited (Medical Courier Services)

Medical Courier Services ("MCS") is a subsidiary owned 80% by AMG and provides transportation services to us, providing extended reach for shipments where we do not have our own facilities or equipment. During YTD 2020, we expensed $63 (YTD 2019 - $135) for deliveries subcontracted to MCS. We expect to continue subcontracting deliveries to MCS. Similarly, in YTD 2020 we invoiced MCS for $9 (YTD 2019 - $2) for transportation services provided to MCS. For YTD 2020, we charged MCS $6 (YTD 2019 - $6) for recovery of shared services costs.

McAllister Courier Inc.

McAllister Courier Inc. ("MCI") is a subsidiary owned 100% by AMG and provides transportation services to us, providing extended reach for shipments where we do not have our own facilities or equipment. During YTD 2020, we expensed $441 (YTD 2019 - $448) for deliveries subcontracted to MCI. We expect to continue subcontracting deliveries to MCI. For YTD 2020 we recovered $12 (YTD 2019 - $nil) for the use of certain of our equipment by 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 coincidence of delivery. During YTD 2020, we charged $358

(YTD 2019 - $358) 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 YTD 2020, we charged TDS $126 (YTD 2019 - $126) for shared services and recovered $182 (YTD 2019 - $182) 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 YTD 2020, TDS charged us $291 (YTD 2019 - $170) for deliveries subcontracted to it by AHG. We expect to continue to subcontract deliveries to TDS.

During YTD 2019 we provided TDS with leased facility space, which is a cost recovery. For YTD 2020 we recovered $328 (YTD 2019 - $328) of facility lease costs from TDS. We expect to continue to incur and recover these costs in connection with TDS.

AWA Transportation & Logistics Inc.

AWA Transportation & Logistics Inc. (“AWA”) is a subsidiary owned 100% by AMG. AWA provides transportation services to the Company, providing extended reach for shipments where we do not have our own facilities or equipment. The Company purchased $293 in services for YTD 2020 (YTD 2019 - $nil). We expect to continue subcontracting deliveries to AWA.

Med Express Ltd.

Med Express Ltd. (“MEL”) is a subsidiary owned 100% by AMG. MEL provides transportation services to the Company, providing extended reach for shipments where we do not have our own facilities or equipment. The Company purchased $11 in services during YTD 2020 (YTD 2019 - $nil). We expect to continue subcontracting deliveries to MEL.

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

D.C. Racking & Maintenance Inc. (“DCR”) and Logiserv Inc. (“Logiserv”) are owned by Cameron Joyce, a member of our board of directors. DCR provides warehouse racking installation, maintenance and repairs for our healthcare logistics segment. Logiserv provides us with warehouse racking and racking components as well as warehouse racking installation, maintenance and repairs. We also purchase warehouse racking installation, maintenance and repairs, and warehouse racking and racking components from arm’s length providers. During YTD 2020, we expensed $29 (YTD 2019 - $20) for warehouse racking installation, maintenance and repair services provided by DCR and Logiserv. We expect to continue to purchase warehouse racking installation, maintenance and repair services and warehouse racking and racking components from DCR and Logiserv.

C-GHBS Inc.

C-GHBS Inc. (“C-GHBS”) is a subsidiary of AMG and provides air travel services to us. We also purchase air travel services from arm’s length providers. During YTD 2020, we purchased $32 (YTD 2019 - $nil) from C-GHBS. We expect to continue to purchase air travel services from C-GHBS.

Due from/to related parties

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

($CAD 000s)	As At June 30,	
	2020	**2019**
Accounts receivable		
Andlauer Management Group Inc.	-	60
TDS Logistics Ltd.	143	383
McAllister Courier Inc.	7	-
1708998 Ontario Limited (Medical Courier Services)	6	1
Trade receivables due from related parties	156	444
Due from related parties		
Andlauer Management Group Inc.	7	55,934
Andlauer Properties and Leasing Inc.	156	2,708
TDS Logistics Ltd.	64	528
Andlauer Sports & Entertainment Inc.	-	236
	227	59,406
Total due from related parties	**383**	**59,850**
Accounts payable and accrued liabilities		
Ready Staffing Solutions Inc.	261	183
McAllister Courier Inc.	54	60
TDS Logistics Ltd.	-	26
Andlauer Properties and Leasing Inc.	-	23
Logiserv Inc.	7	3
AWA Transportation	44	-
Trade payables due to related parties	366	295
Due to related parties		
M. Andlauer	-	40
Andlauer Management Group Inc.	-	600
	-	640
Total due to related parties	**366**	**935**

Critical Accounting Judgements and Estimates

The preparation of our unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020 and 2019 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

Adopted During the Period

There were no new standards that became effective for periods beginning on or after January 1, 2020 that have a material impact on the Company's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020 and 2019.

To be Adopted in Future Periods

The following new standards and amendments to standards are not yet effective for the year ended December 31, 2020, and have not been applied in preparing the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2020 and 2019:

<u>Amendments to IAS 1 – Classification of Liabilities as Current or Non-current</u>

On January 23, 2020, the IASB issued amendments to IAS 1 – Presentation of Financial Statements, to clarify the classification of liabilities as current or non-current. The amendments are effective for annual periods beginning on or after January 1, 2022. Early adoption is permitted. For the purposes of non-current classification, the amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period. The extent of the impact of adoption of the amendments has not yet been determined.

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.

Coronavirus ("COVID-19")

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian Federal and Provincial governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel restrictions, self-imposed quarantine periods, temporary closures or restrictions of non-essential businesses, limitations on public gatherings, and social distancing guidelines, have caused material disruption to businesses globally and in Canada resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions, however the success of these interventions is not currently determinable. Further, depending on the duration of the pandemic, or if the pandemic were to worsen, existing emergency measures may be extended, or additional restrictive measures may be implemented, causing further economic impact and uncertainty.

We are actively assessing and responding, where possible, to the effects of the COVID-19 pandemic on employees, customers, suppliers and other stakeholders. We have successfully adopted a work-from-home policy for our administrative personnel, and at our facilities that continue to operate, in accordance with applicable laws, we are taking steps to safeguard employees through enhanced cleaning practices, employee monitoring strategies, physical distancing and the availability of personal protective equipment in certain circumstances. We are also taking measures to manage costs where possible.

Certain of our administrative personnel have been working remotely, which could disrupt our management, business development, customer service, finance, and information technology teams. We may experience an increase in absences related to the pandemic among our operational personnel, including warehouse associates, drivers and owner operators, which could have a negative impact on our operations. Further, our network or facility operations, particularly in areas with a concentrated outbreak of COVID-19, could be disrupted resulting in an adverse impact on our operating results.

The extent to which COVID-19 and its effect on the economy will impact our business is highly uncertain and may lead to adverse changes in our cash flows, working capital levels, debt balances, operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and our business is not known at this time. Our pandemic management response team will continue to meet daily to review procedures, service levels, news, and Health Canada updates to address any challenges as they arise. At this time, we do not believe there is any immediate risk of significant disruption to our services. In the event of a future significant disruption to our service, we will work closely with our clients, suppliers and regulatory authorities to prioritize the supply and delivery of essential medications and supplies. We continue to closely monitor this situation and we will provide appropriate updates in a timely manner.

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 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 at June 30, 2020, the aggregate amount outstanding under the Credit Facilities was $25 million under the Term facility. 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 interest rates. Changes in interest rates 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 Credit Facilities are available to be drawn in Canadian dollars by way of prime rate loans, bankers' acceptances and letters of credit, and in U.S. dollars by way of base rate loans, LIBOR based loans and letters of credit, in each case, plus the applicable margin in effect from time to time. At June 30, 2020, the term facility comprises bankers' acceptances drawn at an interest rate of 2.0%.

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 May 11, 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, each of which can be exercised or settled for one Subordinate Voting Share and 10,728 Deferred Share Units issued and outstanding under our omnibus incentive plan. As of the date hereof, AMG holds all of the Multiple Voting Shares and 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 our board of directors may consider relevant, we expect to declare a quarterly dividend on the Subordinate Voting Shares and Multiple Voting Shares equal to approximately $0.05 per share on an ongoing basis. Our first dividend for Q1 2020, in the amount of $0.06087 per Share, was paid on April 15, 2020 for the period beginning on December 11, 2019 and ending on March 31, 2020, to shareholders of record as at March 31, 2020. Our Q2 2020 dividend, in the amount of $0.05 per Share, was paid on July 15, 2020 for the period beginning on April 1, 2020 and ending on June 30, 2020, to shareholders of record as at June 30, 2020. Dividends are declared and paid in arrears. The amount and timing of the payment of any dividends are not guaranteed and are subject to the discretion of our board of directors.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

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

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

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

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

Disclosure controls and procedures

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

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

Internal controls over financial reporting

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

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

Changes in internal controls over financial reporting

No changes were made to our ICFR during Q2 2020 that have materially affected, or are reasonably likely to materially affect, our ICFR.

Additional Information

Additional information about the Company, including our AIF, can be found on our profile on SEDAR at www.sedar.com or on our website at www.andlauerhealthcare.com.

Unaudited Interim Condensed Consolidated
Financial Statements of

ANDLAUER HEALTHCARE GROUP INC.

For the three and six months ended June 30, 2020 and 2019

Andlauer Healthcare Group Inc.
Consolidated Balance Sheets
As at June 30, 2020 and December 31, 2019
(In thousands of Canadian dollars, except shares, share price and earnings per share) (unaudited)

Assets	Note	June 30, 2020	December 31, 2019
Current assets			
Cash and cash equivalents		$ 39,231	$ 18,712
Accounts receivable		46,445	51,060
Inventories		987	1,071
Prepaid expenses and other		3,791	2,307
Due from related parties	13	227	239
Due from employee trust	2	-	13,875
		90,681	87,264
Non-current assets			
Long-term deposits		1,043	938
Property, plant and equipment		113,546	103,326
Goodwill and intangible assets		21,384	21,421
Deferred income taxes	10	1,181	46
Total Assets		**$ 227,835**	**$ 212,995**
Liabilities and Equity			
Current liabilities			
Revolving credit facility	4	$ -	$ 3,929
Accounts payable and accrued liabilities		19,902	24,942
Current portion of lease liabilities	11	20,643	19,129
Income taxes payable		10,188	8,695
		50,733	56,695
Long-term liabilities			
Lease liabilities	11	78,226	69,584
Deferred income taxes	10	101	321
Due to related parties	13	-	335
Term facility	4	24,611	24,555
Total Liabilities		**153,671**	**151,490**
Equity			
Common share capital	6	549,679	549,679
Contributed surplus	8	2,973	1,394
Merger reserve	2	(488,916)	(488,916)
Retained earnings (deficit)		10,428	(652)
		74,164	61,505
Commitments and contingencies	12		
Total Liabilities and Equity		**$ 227,835**	**$ 212,995**

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

On behalf of the Board:

"Peter Jelley"
Director

"Thomas G. Wellner"
Director

Andlauer Healthcare Group Inc.

Consolidated Statements of Income and Comprehensive Income

For the three and six months ended June 30, 2020 and 2019

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

	Note	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Revenue	9	**$ 70,253**	**$ 71,147**	**$ 151,903**	**$ 142,543**
Operating Expenses					
Cost of transportation and services		28,498	29,523	62,038	59,214
Direct operating expenses		17,006	18,623	38,603	37,927
Selling, general and administrative expenses		6,771	5,249	14,487	10,441
Depreciation and amortization		6,889	6,348	13,282	12,635
		59,164	59,743	128,410	120,217
Operating Income		**11,089**	**11,404**	**23,493**	**22,326**
Interest expense		(1,212)	(841)	(2,419)	(1,703)
Interest income		34	292	186	550
Other expenses		(19)	(7)	(17)	(8)
Income before income taxes		**9,892**	**10,848**	**21,243**	**21,165**
Current income tax expense	10	3,695	3,000	7,349	5,892
Deferred income tax recovery	10	(870)	(120)	(1,355)	(234)
		2,825	2,880	5,994	5,658
Net income and comprehensive income		**7,067**	**7,968**	**15,249**	**15,507**
Net income attributable to:					
Shareholders of the Company		7,067	7,654	15,249	14,935
Non-controlling interests		-	314	-	572
		$ 7,067	**$ 7,968**	**$ 15,249**	**$ 15,507**
Net earnings per share attributable to the Common Shareholders of the Company:					
Basic earnings per share	7	**$ 0.19**	**$ N/A**	**$ 0.41**	**$ N/A**
Diluted earnings per share	7	**$ 0.18**	**$ N/A**	**$ 0.40**	**$ N/A**

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

Andlauer Healthcare Group Inc.
Consolidated Statements of Changes in Equity
For the six months ended June 30, 2020 and 2019
(In thousands of Canadian dollars, except shares, share price and earnings per share) (unaudited)

	Attributable to Common Shareholders of the Company							
	Number of shares (thousands)	**Share capital**	**Merger reserve** (note 2)	**Contributed surplus**	**Retained earnings (deficit)**	**Total net parent investment** (note 2)	**Non-controlling interests**	**Total equity**
Balance at December 31, 2019	37,600	$ 549,679	$ (488,916)	$ 1,394	$ (652)	$ -	$ -	$ 61,505
Net income and comprehensive income for the period	-	-	-	-	15,249	-	-	15,249
Share-based compensation (note 8)	-	-	-	1,579	-	-	-	1,579
Dividends (note 6)	-	-	-	-	(4,169)	-	-	(4,169)
Balance at June 30, 2020	**37,600**	**$ 549,679**	**$ (488,916)**	**$ 2,973**	**$ 10,428**	**$ -**	**$ -**	**$ 74,164**
Balance at December 31, 2018	-	$ -	$ -	$ -	$ -	$ 163,811	$ 5,917	$ 169,728
Net income and comprehensive income for the period	-	-	-	-	-	14,935	572	15,507
Distributions to related parties	-	-	-	-	-	(30,000)	-	(30,000)
Balance at June 30, 2019	**-**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 148,746**	**$ 6,489**	**$ 155,235**

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

Andlauer Healthcare Group Inc.

Consolidated Statements of Cash Flow

For the six months ended June 30, 2020 and 2019

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

	Note	June 30, 2020	June 30, 2019
Operating activities			
Net income for the period		$ 15,249	$ 15,507
Changes not involving cash:			
Depreciation and amortization		13,282	12,635
Adjustment to capitalized financing costs	4	56	-
Share-based compensation	8	1,579	-
Deferred income tax recovery	10	(1,355)	(234)
Derecognition of right-of-use assets and liabilities	11	(7)	-
		28,804	27,908
Changes in non-cash operating working capital:			
Accounts receivable		4,615	2,915
Inventories		84	330
Accounts payable and accrued liabilities		(5,040)	(5,708)
Income taxes payable		1,493	1,665
Net change in other operating working capital balances		(1,589)	(3,128)
Cash flows from operating activities		**28,367**	**23,982**
Financing activities			
Distributions to related parties		-	(30,000)
Dividends	6	(4,169)	-
Principal repayments on lease liabilities	11	(9,764)	(9,366)
Net change in related party balances		(323)	(4,131)
Loan to employee trust	2	13,875	-
Repayment of revolving credit facility	4	(3,929)	-
Cash flows used in financing activities		**(4,310)**	**(43,497)**
Investing activities			
Purchase of property, plant and equipment		(3,327)	(858)
Purchase of intangible assets		(211)	(112)
Cash flows used in investing activities		**(3,538)**	**(970)**
Net increase (decrease) in cash and cash equivalents		20,519	(20,485)
Cash and cash equivalents, beginning of period		18,712	53,657
Cash and cash equivalents, end of period		**$ 39,231**	**$ 33,172**

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

1. Reporting entity

Andlauer Healthcare Group Inc. ("AHG") was incorporated under the Ontario Business Corporations Act on November 12, 2019 with its head office located in Woodbridge, Ontario. AHG's subordinate voting shares are listed on the Toronto Stock Exchange under the stock symbol "AND". AHG specializes in third party logistics and transportation solutions for the healthcare sector in Canada.

On December 4, 2019, AHG entered into an underwriting agreement and filed a long form prospectus for the purpose of completing an initial public offering, which closed on December 11, 2019 (the ''Closing''). AHG raised gross proceeds of $150,000 through the issuance of 10 million subordinate voting shares at a price of $15.00 per subordinate voting share. On December 16, 2019, a further 1.5 million subordinate voting shares were issued at a price of $15.00 per subordinate voting share resulting in $22,500 of additional gross proceeds pursuant to the exercise of an over-allotment option in the underwriting agreement.

As part of the Closing, in addition to the shares issued to the public, Andlauer Management Group Inc. ("AMG") acquired 25.1 million multiple voting shares and 1 million subordinate voting shares of AHG. AMG concurrently transferred 925,000 subordinate voting shares to an Employee Benefit Plan Trust. AMG holds all of the issued and outstanding multiple voting shares and 75,000 subordinate voting shares of AHG, 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, Chief Executive Officer and a director of AHG.

2. Basis of presentation

a) Statement of compliance

These unaudited interim condensed consolidated financial statements ("consolidated financial statements") have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting,* as issued by the International Accounting Standards Board ("IASB"). Under International Financial Reporting Standards (''IFRS''), additional disclosures are required in the annual financial statements and therefore, these consolidated financial statements and accompanying notes should be read in conjunction with the notes to the Company's audited consolidated financial statements for the years ended December 31, 2019 and 2018.

These consolidated financial statements have been prepared using consistent accounting policies and methods used in the preparation of the Company's annual audited consolidated financial statements.

These consolidated financial statements were authorized for issue by the Board of Directors effective August 12, 2020.

b) Basis of measurement

These consolidated financial statements comprise the consolidated financial results of AHG as at and for the three and six months ended June 30, 2020 and the combined financial results of Associated Logistics Solutions Inc., Credo Canada Systems Inc., 2186940 Ontario Inc. and their respective subsidiaries (collectively, the "AHG Entities") as at and for the three and six month periods ended June 30, 2019 (collectively the "Company").

Common control transaction

In connection with a series of transactions that occurred prior to, and on, the date of Closing, AHG acquired a 100% ownership interest in the AHG Entities.

2. Basis of presentation (continued)

b) Basis of measurement (continued)

Common control transaction (continued)

AHG's acquisition of the AHG Entities was a business combination involving entities under common control in which all of the combining entities were ultimately controlled by AMG, both before and after the reorganization transactions were completed. Business combinations involving entities under common control are outside the scope of IFRS 3 Business Combinations. AHG accounted for this common control transaction using book value accounting, based on the book values recognized in the financial statements of the underlying entities. This election results in the 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.

(i) Total net parent investment

The comparative financial statements as at and for the three and six months ended June 30, 2019 have been prepared on a combined basis. Accordingly, it is not meaningful to show share capital or provide an analysis of reserves. Therefore, amounts which reflect the carrying value of investments in the combined entities are disclosed as "Total net parent investment", while carrying value of net assets attributable to shareholders other than the Company are presented as "Non-controlling interests" ("NCI"). Since the Company was not an existing legal entity during the six months ended June 30, 2019, the combined entities have no historical capital structure. Consequently, earnings per share as required by IAS 33 *Earnings per share* has not been presented for the comparative period.

(ii) Merger reserve

Pursuant to a share purchase agreement between AHG and its parent, and in connection with a corporate reorganization immediately prior to the initial public offering, AHG acquired a 100% ownership interest in the AHG Entities based on the value of consideration of $577,625. Total net parent investment as at December 10, 2019 (immediately prior to the Closing) was $88,709. A merger reserve of $488,916 is recorded to reflect the difference in carrying value of the net assets acquired and the consideration paid since AHG and the AHG Entities were all related under the common control of AMG at the time of the acquisition.

(iii) Employee trust

An employee trust was established at Closing, the beneficiaries of which will be executive officers and employees of the Company. AHG made a non-interest bearing loan of $13,875 to the employee trust which the employee trust used to acquire 925,000 subordinate voting shares from AMG. On June 25, 2020, the employee trust repaid its loan from AHG in full using a portion of proceeds from the sale of 508,000 subordinate voting shares pursuant to a number of private agreements. The employee trust continues to hold the remaining 417,000 subordinate voting shares for the benefit of executive officers and employees of the Company.

c) Judgments and estimates

Preparing the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these consolidated financial statements, significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2019.

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

3. Segment reporting

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

The Company evaluates performance based on the various financial measures of its two operating segments. Performance is measured based on segment income or loss before tax. This measure is included in the internal management reports that are reviewed by the Company's CEO and refers to "Income before income taxes" in the consolidated statements of income and comprehensive income. Segment income or loss before tax is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within the same industries. The following table identifies selected financial data as at June 30, 2020 and 2019 and for the three months and six months then ended:

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at June 30, 2020 and for the three months then ended					
Revenue	$ 51,086	$ 25,511	$ 1,200	$ (7,544)	$ 70,253
Segment income before tax	8,515	2,119	(742)	-	9,892
Interest income	21	13	-	-	34
Interest expense	(586)	(487)	(139)	-	(1,212)
Depreciation and amortization	(4,069)	(2,820)	-	-	(6,889)
Segment net income	6,513	1,661	(1,107)	-	7,067
Segment total assets	134,280	105,869	592,380	(604,694)	227,835
Additions of ROU assets	3,211	14,669	-	-	17,880
Capital expenditures	47	2,409	-	-	2,456
Segment total liabilities	74,951	58,024	48,329	(27,633)	153,671
As at June 30, 2019 and for the three months then ended					
Revenue	$ 49,655	$ 27,692	$ -	$ (6,200)	$ 71,147
Segment income before tax	7,959	2,889	-	-	10,848
Interest income	273	19	-	-	292
Interest expense	(427)	(414)	-	-	(841)
Depreciation and amortization	(3,974)	(2,374)	-	-	(6,348)
Segment net income	5,811	2,157	-	-	7,968
Segment total assets	166,839	93,253	-	(4,325)	255,767
Additions of ROU assets	2,216	-	-	-	2,216
Capital expenditures	270	295	-	-	565
Segment total liabilities	55,558	49,299	-	(4,325)	100,532

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

3. Segment reporting (continued)

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at June 30, 2020 and for the six months then ended					
Revenue	$ 108,947	$ 56,422	$ 1,200	$ (14,666)	$ 151,903
Segment income before tax	19,007	5,052	(2,816)	-	21,243
Interest income	139	47	-	-	186
Interest expense	(1,115)	(889)	(415)	-	(2,419)
Depreciation and amortization	(8,069)	(5,213)	-	-	(13,282)
Segment net income	13,943	3,688	(2,382)	-	15,249
Segment total assets	134,280	105,869	592,380	(604,694)	227,835
Additions of ROU assets	5,467	14,669	-	-	20,136
Capital expenditures	136	3,191	-	-	3,327
Segment total liabilities	74,951	58,024	48,329	(27,633)	153,671
As at June 30, 2019 and for the six months then ended					
Revenue	$ 99,164	$ 55,654	$ -	$ (12,275)	$ 142,543
Segment income before tax	15,882	5,283	-	-	21,165
Interest income	514	36	-	-	550
Interest expense	(862)	(841)	-	-	(1,703)
Depreciation and amortization	(7,879)	(4,756)	-	-	(12,635)
Segment net income	11,605	3,902	-	-	15,507
Segment total assets	166,839	93,253	-	(4,325)	255,767
Additions of ROU assets	6,758	16	-	-	6,774
Capital expenditures	537	321	-	-	858
Segment total liabilities	55,558	49,299	-	(4,325)	100,532

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

The Company does not have any customers that individually represent more than 10% of revenue.

4. Credit facilities

	June 30, 2020	December 31, 2019
Revolving credit facility	$ -	$ 3,929
Term facility	25,000	25,000
	25,000	28,929
Less: financing costs	(389)	(445)
	$ 24,611	**$ 28,484**

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

4. Credit facilities (continued)

Recorded in the consolidated balance sheets as follows:

	June 30, 2020	December 31, 2019
Revolving credit facility	$ -	$ 3,929
Term facility	24,611	24,555
	$ 24,611	**$ 28,484**

The movement in credit facilities from December 31, 2019 is as follows:

	Credit facilities
Balance at December 31, 2019	$ 28,484
Changes from financing cash flows	
Repayment of revolving credit facility	(3,929)
	24,555
Non-cash movements	
Amortization of capitalized financing costs	56
Balance at June 30, 2020	**$ 24,611**

On December 11, 2019 the Company entered into credit facilities with affiliates of RBC and CIBC at Closing of the initial public offering. The credit facilities comprise a revolving credit facility in the aggregate principal amount of $75,000 and a term facility in the aggregate principal amount of $25,000. The credit facilities are available to be drawn in Canadian dollars by way of prime rate loans, bankers' acceptances and letters of credit, and in U.S. dollars by way of base rate loans, LIBOR based loans and letters of credit, in each case, plus the applicable margin in effect from time to time. At June 30, 2020, the term facility comprises bankers' acceptances drawn at an interest rate of 2.0%.

The credit facilities are guaranteed by each of the Company's material subsidiaries and are secured by (i) a first priority lien over all personal property of the Company, subject to certain exclusions and permitted liens, (ii) charges over certain material leased real property interests, and (iii) a first ranking pledge of 100% of the securities of any subsidiary owned by the Company.

The credit facilities are subject to customary negative covenants and include financial covenants requiring the Company to maintain at all times a maximum net leverage ratio and a minimum interest coverage ratio, tested on a quarterly basis. At June 30, 2020, the Company is in compliance with all of its covenants under the credit facilities.

The credit facilities will mature and be due and payable on December 11, 2023.

Amounts recognized in the consolidated statements of income and comprehensive income in connection with interest expense for the credit facilities for the three and six months ended June 30, 2020 was $139 and $414 respectively (2019 – $nil and $nil respectively).

5. Financial instruments and financial risk management

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities and term facility. The Company believes that the carrying amount of each of these items is a reasonable approximation of fair value.

As the term facility bears interest at a floating rate subject to fluctuations in the bank prime rate the carrying value of the debt approximates fair value.

6. Share capital

The Company is authorized to issue an unlimited number of subordinate voting common shares, an unlimited number of multiple voting common shares, and an unlimited number of preferred shares, issuable in series. The subordinate voting shares and multiple voting shares rank *pari passu* with respect to the payment of dividends, return of capital and distribution of assets in the event of liquidation, dissolution, or wind-up. Holders of multiple voting shares are entitled to four votes per multiple voting share, and holders of subordinate voting shares are entitled to one vote per subordinate voting share on all matters upon which holders of shares are entitled to vote. All of the multiple voting shares and 75 thousand subordinate voting shares are owned by the Company’s parent, AMG. At June 30, 2020, 25.1 million multiple voting shares and 12.5 million subordinate voting shares were issued and outstanding (December 31, 2019 – 25.1 million and 12.5 million respectively).

Dividends to subordinate voting and multiple voting shareholders

During the six months ended June 30, 2020, the Company declared total dividends of $4,169 on subordinate voting and multiple voting common shares. Included in accounts payable and accrued liabilities as at June 30, 2020 is $1,880, or $0.05 per common share, for dividends payable on July 15, 2020 to common shareholders of record on June 30, 2020.

7. Earnings per share

Comparative earnings per share data is not presented for the three and six months ended June 30, 2019 as the Company was not incorporated until November 12, 2019.

Basic earnings per share

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

(in thousands of dollars and number of shares)	Three months ended June 30, 2020	Six months ended June 30, 2020
Net income attributable to the common shareholders of the Company	$ 7,067	$ 15,249
Weighted average number of common shares	37,600	37,600
Earnings per share – basic	**$ 0.19**	**$ 0.41**

7. Earnings per share (continued)

Diluted earnings per share

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

(in thousands of dollars and number of shares)	Three months ended June 30, 2020	Six months ended June 30, 2020
Net income attributable to the common shareholders of the Company	$ 7,067	$ 15,249
Weighted average number of common shares	37,600	37,600
Dilutive effects:		
Stock options	739	591
Deferred share units	4	15
Weighted average number of diluted common shares	38,343	38,206
Earnings per share – diluted	**$ 0.18**	**$ 0.40**

8. Share-based payment arrangements

Stock option plan (equity-settled)

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

On December 11, 2019 the Board of Directors approved a grant of 1,650 thousand options. Of the options outstanding at June 30, 2020, a total of 700 thousand are held by non-executive directors; 400 thousand are held by executive officers; with the remaining 550 thousand held by key management personnel.

The fair value of the stock options granted was estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

	December 11, 2019
Exercise price	$ 15.00
Average expected option life	7 years
Risk-free interest rate	1.59%
Expected stock price volatility	24.77%
Average dividend yield	1.33%
Weighted average fair value per option of options granted	**$ 3.60**

In connection with the initial public offering, all non-executive directors were awarded 50 thousand options each which vested immediately. A total of 350 thousand options are exercisable at June 30, 2020 (December 31, 2019 – 350 thousand).

8. Share-based payment arrangements (continued)

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

	Six months ended June 30, 2020	
(in thousands of options and in dollars)	**Number of options**	**Weighted average exercise price**
Opening balance	1,650	$ 15.00
Granted	-	-
Exercised	-	-
Forfeited	-	-
Ending balance	1,650	15.00

	Number of options	Weighted average exercise price
Options exercisable at June 30, 2020	**350**	**$ 15.00**

The Company recognized compensation expense of $593 and $1,186 for the three six months ended June 30, 2020 respectively, with corresponding increases to contributed surplus in connection with the vesting of options issued at the time of the initial public offering.

Director deferred share units ("DSUs") program (equity settled)
Each non-executive director receives at least 50% of his or her annual director retainer in DSUs. DSUs vest when granted but are not redeemable for settlement until the director ceases to be a member of the Board. The number of DSUs issued is calculated for each director as the director's quarterly retainer divided by the volume weighted average trading price on the TSX for the five trading days prior to such issuance. For the three and six months ended June 30, 2020, the Company recognized a compensation expense of $155 and $393 respectively, with corresponding increases to contributed surplus (June 30, 2019 – $nil and $nil respectively).

The table below summarizes the changes in the outstanding DSUs:

(thousands of DSUs)	June 30, 2020
Outstanding at December 31, 2019	-
Granted	15
Outstanding at June 30, 2020	**15**

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

9. Revenue

A. **Revenue streams**

The Company generates revenue primarily from the provision of supply chain transportation and logistics services to its customers. The Company's contracts are typically satisfied over a short period of time. Consequently, the Company applies the practical expedient and does not disclose information related to its remaining performance obligations.

B. **Disaggregation of revenue from contracts with customers**

In the following table, revenue from contracts with customers is disaggregated by major products and service lines. The table also includes a reconciliation of the disaggregated revenue with the Company's reportable segments (note 3).

Major products/service lines	**Three Months Ended June 30, 2020**	**Three Months Ended June 30, 2019**	**Six Months Ended June 30, 2020**	**Six Months Ended June 30, 2019**
Logistics and distribution	$ 21,660	$ 22,393	$ 45,227	$ 43,940
Packaging solutions	3,851	5,299	11,195	11,714
Healthcare Logistics segment	25,511	27,692	56,422	55,654
Ground transportation	39,504	40,932	85,833	81,746
Air freight forwarding	5,390	4,559	10,655	9,572
Dedicated and last mile delivery	6,192	4,164	12,459	7,846
Intersegment revenue	(6,344)	(6,200)	(13,466)	(12,275)
Specialized Transportation segment	44,742	43,455	95,481	86,889
Total revenue	**$ 70,253**	**$ 71,147**	**$ 151,903**	**$ 142,543**

C. **Deferred revenue**

The Company bills customers for transportation services based on the pick-up date. When shipments remain in transit at the end of a period, the Company defers revenue until the shipments are delivered. The Company does not regularly bill customers in advance for logistics and distribution services. Consequently, fluctuations in deferred revenue will occur year over year and will depend on specifically negotiated payment terms resulting from customer billing requests or concerns related to credit risk. To date, the changes in deferred revenue have been largely insignificant. As at June 30, 2020 there was $1,070 (June 30, 2019 – $714) recorded in accounts payable and accrued liabilities. Revenue recognized in the first six months of 2020 of $879 (June 30, 2019 – $737) was included in the opening deferred revenue balance at the beginning of the period.

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

10. Income taxes

A. Amounts recognized in profit or loss

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Current income tax expense:				
Current taxes on income for the reporting period	$ 3,695	$ 3,000	$ 7,349	$ 5,892
Deferred income tax recovery:				
Origination and reversal of temporary differences	(870)	(120)	(1,355)	(234)
Income tax expense reported to the statements of income and comprehensive income	**2,825**	**2,880**	**5,994**	**5,658**

Total cash outflow for actual taxes paid for the three and six months ended June 30, 2020 was $2,331 and $6,096 respectively (2019 – $2,245 and $5,417).

B. Reconciliation of effective tax rate

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Income before income taxes	$ 9,892	$ 10,848	$ 21,243	$ 21,165
Consolidated Canadian federal and provincial income tax rate (26.5% consolidated rate)	26.50%	26.50%	26.50%	26.50%
Income tax expense based on statutory rate	$ 2,621	$ 2,875	$ 5,629	$ 5,609
Increase in income taxes resulting from non-deductible items or other adjustments	204	5	365	49
Total income tax expense	**$ 2,825**	**$ 2,880**	**$ 5,994**	**$ 5,658**

C. Deferred taxes

	June 30, 2020	December 31, 2019
Deferred tax assets	$ 1,181	$ 46
Deferred tax liabilities	(101)	(321)
Net deferred tax asset (liability)	**$ 1,080**	**$ (275)**

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

10. Income taxes (continued)

D. **Movement in deferred tax balances**

	June 30, 2020	Movement	December 31, 2019	Movement	June 30, 2019	Movement	December 31, 2018
Plant and equipment	(519)	-	$ (519)	(90)	(429)	(169)	$ (260)
Accounts payable and accrued liabilities	372	104	268	(58)	326	-	326
Intangibles	709	-	709	218	491	295	196
Income deferred for tax purposes	(515)	981	(1,496)	(626)	(870)	-	(870)
Leases	1,033	270	763	(56)	819	123	696
Net deferred tax asset (liability)	**$ 1,080**	**$ 1,355**	**$ (275)**	**$ (612)**	**$ 337**	**$ 249**	**$ 88**

E. **Unrecognized deferred tax assets**

Deferred tax assets have not been recognized in respect of certain items. The Company is evaluating alternatives under which sufficient future taxable profit will be available against which the Company can use the benefits therefrom. Deductible temporary differences represent costs incurred by the Company related to the acquisition of the AHG Entities and charged directly to equity.

	June 30, 2020		December 31, 2019	
	Gross amount	**Tax effect**	**Gross amount**	**Tax effect**
Deductible temporary differences	$ 14,321	$ 3,795	$ 14,321	$ 3,795
Tax losses	1,021	271	1,021	271
	$ 15,342	**$ 4,066**	**$ 15,342**	**$ 4,066**

The tax losses of $1,021 will expire in 2039.

F. **Uncertainty over income tax treatments**

The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

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

11. Leases

The Company leases buildings and equipment in the operation of its Transportation and Logistics businesses. The Company estimated its incremental borrowing rates for portfolios of leases with similar characteristics, such as similar risk profiles, same or similar types of security, and similar lease terms. Building lease terms range from 5 to 10 years. Facilities lease liabilities are calculated using the Company's incremental borrowing rate based on the specific lease commitments and term for each facility. The average incremental borrowing rate for facilities for the six months ended June 30, 2020 is 3.29% (year ended December 31, 2019 – 3.75%). Equipment lease terms range from 1 to 5 years. Equipment lease liabilities are calculated using the operating segment's average incremental borrowing rate on an equipment lease portfolio basis for that period. The average incremental borrowing rate for equipment for the six months ended June 30, 2020 is 3.34% for Specialized Transportation and 2.67% for Healthcare Logistics (year ended December 31, 2019 – 4.07% for Specialized Transportation; 3.95% for Healthcare Logistics).

Right-of-use assets – Facilities	**As at and for the six months ended June 30, 2020**	**As at and for the year ended December 31, 2019**
Opening balance	$ 56,285	$ 49,634
Add: additions	14,212	17,708
Less: derecognition	(26)	-
Less: depreciation	(6,310)	(11,057)
Ending balance	**$ 64,161**	**$ 56,285**

Right-of-use assets – Logistics and transportation equipment	**As at and for the six months ended June 30, 2020**	**As at and for the year ended December 31, 2019**
Opening balance	$ 28,018	$ 25,400
Add: additions	5,924	11,145
Less: derecognition	(183)	-
Less: depreciation	(4,580)	(8,527)
Ending balance	**$ 29,179**	**$ 28,018**

Net carrying amounts of right-of-use assets included in property, plant and equipment	**June 30, 2020**	**December 31, 2019**
Facilities	$ 64,160	$ 56,285
Logistics and transportation equipment	29,179	28,018
Balance	**$ 93,340**	**$ 84,303**

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

11. Leases (continued)

Lease liabilities – Facilities	**As at and for the six months ended June 30, 2020**	**As at and for the year ended December 31, 2019**
Opening balance	$ 60,948	$ 53,927
Add: additions	14,212	17,583
Add: interest expense	1,357	2,238
Less: derecognition	(26)	-
Less: repayments	(5,292)	(10,562)
Less: interest payments	(1,357)	(2,238)
Ending balance	**$ 69,842**	**$ 60,948**

Lease liabilities – Logistics and transportation equipment	**As at and for the six months ended June 30, 2020**	**As at and for the year ended December 31, 2019**
Opening balance	$ 27,765	$ 25,093
Add: additions	5,924	11,146
Add: interest expense	568	1,019
Less: derecognition	(190)	-
Less: repayments	(4,472)	(8,474)
Less: interest payments	(568)	(1,019)
Ending balance	**$ 29,027**	**$ 27,765**

Cash lease principal payments	**Six months ended June 30, 2020**	**Year ended December 31, 2019**
Repayments of lease principal	$ (9,764)	$ (19,036)
Pre-payment of leases	-	(125)
Total lease payments	**$ (9,764)**	**$ (19,161)**

Lease liabilities	**June 30, 2020**	**December 31, 2019**
Facilities	$ (69,842)	$ (60,948)
Logistics and transportation equipment	(29,027)	(27,765)
Balance	**$ (98,869)**	**$ (88,713)**

Lease liabilities included in consolidated balance sheets	**June 30, 2020**	**December 31, 2019**
Current	$ (20,643)	$ (19,129)
Non-current	(78,226)	(69,584)
Balance	**$ (98,869)**	**$ (88,713)**

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

11. Leases (continued)

Maturity analysis for lease liabilities - contractual undiscounted cash flows	**June 30, 2020**	**December 31, 2019**
Less than one year	$ 24,412	$ 22,407
One to 5 years	66,284	58,882
More than 5 years	21,428	19,092
Total undiscounted lease liabilities	**$ 112,124**	**$ 100,381**

Amounts recognized in the consolidated statements of income and comprehensive income in connection with interest expense for lease liabilities for the three and six months ended June 30, 2020 was $1,044 and $1,925 respectively (June 30, 2019 – $800 and $1,609). Total cash outflow for leases for the three and six months ended June 30, 2020 was $6,028 and $11,689 respectively (June 30, 2019 – $5,532 and $10,954).

12. Commitments and contingencies

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

(ii) As at June 30, 2020, the Company had outstanding letters of guarantee in the amount of $180 (December 31, 2019 – $180).

(iii) The Company has made commitments for fleet equipment, with the terms to begin upon delivery of the equipment through the third quarter of 2020. Commitments range from 66 to 84 months and total $648.

13. Related parties

During the period, the Company entered into transactions with related parties that were incurred in the normal course of business. The Company’s policy is to conduct all transactions and settle all balances with related parties on market terms and conditions. All outstanding balances with these related parties are to be settled in cash within two months of the reporting date. None of the balances are secured. No expense has been recognized in the current period or prior period for bad or doubtful debts in respect of amounts owed by related parties.

The Company is indirectly controlled by Michael Andlauer, the President and Chief Executive Officer and CODM. Included in these consolidated financial statements are the following transactions and balances with companies related either directly or indirectly to Mr. Andlauer.

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

13. Related parties (continued)

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Revenue				
Transportation services				
TDS Logistics Ltd.	$ 176	$ 181	$ 358	$ 358
1708998 Ontario Limited (Medical Courier Services)	6	1	9	2
Facility rent recovery				
TDS Logistics Ltd.	164	164	328	328
Andlauer Management Group Inc.	-	80	-	160
Shared service recovery				
TDS Logistics Ltd.	63	63	126	126
Andlauer Properties and Leasing Inc.	5	5	10	10
Andlauer Management Group Inc.	3	3	6	6
9143-5271 Quebec Inc.	8	8	16	16
1708998 Ontario Limited (Medical Courier Services)	3	3	6	6
Equipment rental recovery				
TDS Logistics Ltd.	91	91	182	182
McAllister Courier Inc.	9	-	12	-
Expenses				
Transportation services				
McAllister Courier Inc.	209	208	441	448
1708998 Ontario Limited (Medical Courier Services)	17	71	63	135
TDS Logistics Ltd.	103	165	291	170
AWA Transportation & Logistics Inc.	219	-	293	-
Med Express Ltd.	9	-	11	-
Contract labour services				
Ready Staffing Solutions Inc.	915	1,018	1,985	2,017
Equipment rent				
Andlauer Properties and Leasing Inc.	464	365	870	691
Shared services				
Andlauer Management Group Inc.	-	177	-	354
Facility rent				
Andlauer Properties and Leasing Inc.	354	108	709	224
9143-5271 Quebec Inc.	383	287	702	574
Maintenance services				
D.C. Racking and Maintenance Inc. and Logiserv Inc.	3	7	29	20
Travel services				
C-GHBS Inc.	-	-	32	-

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

13. Related parties (continued)

	June 30, 2020	December 31, 2019
Trade receivables due from related parties		
Andlauer Management Group Inc.	$ -	$ 60
TDS Logistics Ltd.	143	380
McAllister Courier Inc.	7	-
1708998 Ontario Limited (Medical Courier Services)	6	-
9143-5271 Quebec Inc.	-	1
Total trade receivables	156	$ 441
Due from related parties		
Andlauer Management Group Inc.	7	53
Andlauer Properties and Leasing Inc.	156	186
TDS Logistics Ltd.	64	-
	227	239
Total due from related parties	**$ 383**	**$ 680**

	June 30, 2020	December 31, 2019
Trade payables due to related parties		
Ready Staffing Solutions Inc.	$ 261	$ 397
McAllister Courier Inc.	54	71
TDS Logistics Ltd.	-	100
Andlauer Properties and Leasing Inc.	-	1,196
Med Express	-	1
D.C. Racking and Maintenance Inc.	-	1
Logiserv Inc.	7	69
Bulldog Hockey Inc.	-	28
C-GHBS Inc.	-	153
AWA Transportation	44	-
Total trade payables	366	2,016
Due to related parties		
M. Andlauer	-	161
TDS Logistics Ltd.	-	174
	-	335
Total due to related parties	**$ 366**	**$ 2,351**

Key management personnel

The Company's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. Key management personnel are defined as those individuals having authority and responsibility for planning, directing and controlling the activities of the Company and include the Company's CEO, four named executive officers comprising key management and the Board of Directors.

During the three and six months ended June 30, 2020, the Company recorded $1,099 and $2,219 respectively (June 30, 2019 - $598 and $1,196) related to key management personnel salaries and benefits, share-based compensation, and director fees.

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

14. Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, as well as the level of dividends and distributions to ordinary shareholders.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position. The Company monitors capital using a net leverage ratio, calculated as net debt divided by the last twelve months' earnings before interest, taxes, depreciation and amortization ("EBITDA"). The Company seeks to keep its net leverage ratio below 3.0 in the ordinary course of business.

	June 30, 2020	December 31, 2019
Total liabilities	$ 153,671	$ 151,490
Less: cash and cash equivalents	(39,231)	(18,712)
Net debt	114,440	132,778
Last twelve months' net income	30,087	30,345
Last twelve months' interest income	(640)	(1,004)
Last twelve months' interest expense	4,219	3,503
Last twelve months' income tax expense	12,340	12,004
Last twelve months' depreciation and amortization	26,353	25,706
Last twelve months' EBITDA	72,359	70,554
Net leverage ratio	1.58	1.88

15. COVID-19 Pandemic

On March 11, 2020 the outbreak of a novel coronavirus known as "COVID-19" was declared a global pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian federal and provincial governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel restrictions, self-imposed quarantine periods, temporary closures or restrictions of non-essential businesses, limitations on public gatherings, and social distancing guidelines, have caused material disruption to businesses globally and in Canada resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions, however the success of these interventions is not currently determinable. Depending on the duration of the pandemic, or if the pandemic were to worsen, existing emergency measures may be extended, or additional restrictive measures may be implemented, causing further economic impact and uncertainty. The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position in the future.

The Company's pandemic management response team meets regularly to review procedures, service levels, news, and Health Canada updates to address any challenges as they arise. At this time, management does not believe there is any immediate risk of significant disruption to the Company's services. In the event of a future significant disruption to service, the Company will work closely with clients, suppliers and regulatory authorities to prioritize the supply and delivery of essential medications and supplies.

15. COVID-19 Pandemic (continued)

During the second quarter of 2020, the Company qualified for and received $591 of government assistance under the federal government's Canada Emergency Wage Subsidy ("CEWS") program in connection with its Nova Pack Ltd. ("NPL") subsidiary. The Company recognizes government assistance when there is reasonable assurance that it will comply with the conditions required to qualify for the assistance, and that the assistance will be received. The Company recognizes government assistance as a reduction to the related expense that the assistance is intended to offset. NPL qualified for CEWS assistance for the 4-week period ending July 4, 2020 and recorded a receivable of $250 as at June 30, 2020. A total of $841 has been recognized as a reduction of direct operating expenses for the three months ended June 30, 2020 under the CEWS program. It is uncertain whether the Company will continue to qualify for CEWS assistance for the remainder of the year.