Andlauer
HEALTHCARE GROUP

Q3 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 nine month periods ended September 30, 2020

November 10, 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 nine month periods ended September 30, 2020 should be read in conjunction with Andlauer Healthcare Group Inc.'s unaudited interim condensed consolidated financial statements for the three and nine month periods ended September 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 November 10, 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 "Q3 2020" are to the three months ended September 30, 2020; "Q3 2019" are to the three months ended September 30, 2019; "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 nine months ended September 30, 2020; "YTD 2019" are to the nine months ended September 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 our operations, business and financial results;
- the impact of changing conditions in the healthcare logistics and transportation services market;
- our ability to execute our growth strategies;
- increasing competition in the healthcare logistics and transportation services market in which we operate;
- volatility in financial markets;
- changes in the attitudes, financial condition and demand of our target market;
- developments and changes in applicable laws and regulations;
- our ability to source and complete acquisitions;
- our ability to retain existing clients and develop new clientele;
- our ability to retain members of our management team and key personnel;
- increases in driver compensation and the ability to attract and retain employees;
- our ability to expand into additional markets; and
- such other factors discussed in greater detail under "Risk Factors" in this MD&A and in our Annual Information Form dated March 12, 2020 for Fiscal 2019 (the "AIF") which is available on our 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 nine months ended September 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 consolidated financial statements for the three and nine months ended September 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 Q3 2020, YTD 2020, Q3 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 million Subordinate Voting Shares at a price of $15.00 per share for gross proceeds of $150 million. The underwriters in the IPO were granted an over-allotment option (the "Over-Allotment Option") to purchase up to an additional 1.5 million 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 $22.5 million.

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 million 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 million. 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 million from AHG (the "Employee Trust Loan") and used the proceeds to acquire 0.925 million Subordinate Voting Shares from AMG for the benefit of certain executive officers and employees of AHG and the AHG Entities.

During Q2 2020, the Trustees of the Employee Trust initiated steps to simplify the Employee Trust structure. On June 23, 2020, the Employee Trust sold an aggregate of 0.508 million 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 million (the "Employee Trust Disposition"). On June 25, 2020, $13.875 million 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, there is no ongoing contractual relationship between AHG, or any AHG entity, and the Employee Trust; and no expenses are 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.

During Q3 2020, approximately 0.151 million Subordinate Voting Shares were distributed to beneficiaries by 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.

We believe that we are Canada's only national third-party service provider focused exclusively on delivering customized, end-to-end logistics and specialized transportation solutions to the healthcare sector. Our 3PL services are provided under our Accuristix 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 AHG, 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 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 our 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 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.

Q3 2020 Compared to Q3 2019

Select highlights include the following:

- Revenue increased 7.0% to $75.8 million, compared to $70.8 million in Q3 2019;
- Operating income increased 16.3% to $13.2 million, compared to $11.3 million in Q3 2019;
- Net income and comprehensive income increased 10.7% to $8.6 million, compared to $7.8 million in Q3 2019;
- EBITDA increased 13.0% to $20.2 million, compared to $17.9 million in Q3 2019, despite the absorption of approximately $1.2 million of incremental costs related to share-based compensation arrangements and the transition to a public company;
- EBITDA Margin was 26.6% in Q3 2020, compared to 25.2% in Q3 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 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; and
- Subsequent to Q3 2020, on October 5, 2020, we announced the completion of two tuck-in acquisitions (TDS Logistics Ltd. and McAllister Courier Inc.), for a combined purchase price of $15.9 million. – our first acquisitions as a public company.

YTD 2020 Compared to YTD 2019

Select highlights include the following:

- Revenue increased 6.7% to $227.7 million, compared to $213.4 million in YTD 2019;
- Operating income increased 9.0% to $36.7 million, compared to $33.6 million in YTD 2019;
- Net income and comprehensive income increased 2.5% to $23.8 million, compared to $23.3 million in YTD 2019;
- EBITDA increased 7.8% to $56.9 million, compared to $52.8 million in YTD 2019, despite the absorption of approximately $4.1 million of incremental costs related to share-based compensation arrangements and the transition to a public company;
- EBITDA Margin was 25.0% in YTD 2020, compared to 24.8% 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, cost savings and lower risks, as compared to more capital expenditure intensive models. Accordingly, lease costs comprise a significant component of our expenses. Under IFRS 16, leases have been capitalized, resulting in the costs associated with our leases being recorded as depreciation and interest expense. We believe that the cash flows associated with our lease payments are a relevant metric in evaluating the performance of our business.

Revenue

We generate revenue from the provision of supply chain solutions to the Canadian 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 (“SG&A”) expenses primarily consist of the cost of salaries and benefits for executive and certain administration functions, including information technology, sales and client service, finance and accounting, professional fees, facility costs, legal costs and other expenses related to the corporate infrastructure required to support our business. 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 lease facilities and certain equipment rather than allocating significant cash flows to capital expenditures. We believe this approach provides us with greater flexibility and lower risks and results in cost savings as compared to capital expenditure intensive models. Accordingly, lease costs comprise a significant component of our expenses. Under IFRS 16, leases have been capitalized, resulting in depreciation and interest expense rather than direct operating expense.

Operating Income

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

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. We are evaluating alternatives under which sufficient future taxable profit will be available against which we can use the benefits therefrom. We have not recognized certain deductible temporary differences comprising costs incurred 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 Q3 2020, Q3 2019, YTD 2020 and YTD 2019 has been derived from our unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2020 and 2019 and related notes thereto.

($CAD 000s)	Three Months Ended September 30,		Nine months Ended September 30,	
	2020	2019	2020	2019
Revenue				
Logistics & Distribution	25,682	21,707	70,909	65,647
Packaging Solutions	4,261	4,701	15,456	16,415
Healthcare Logistics Segment	29,943	26,408	86,365	82,062
Ground Transportation	42,946	41,609	128,779	123,355
Air Freight Forwarding	5,736	4,848	16,391	14,420
Dedicated and Last Mile Delivery	6,357	4,015	18,816	11,861
Intersegment Revenue	(9,177)	(6,036)	(22,643)	(18,311)
Specialized Transportation Segment	45,862	44,436	141,343	131,325
Total revenue	**75,805**	**70,844**	**227,708**	**213,387**
Operating expenses				
Cost of transportation and services	30,812	29,570	92,850	88,784
Direct operating expense	17,996	18,279	56,599	56,206
Selling, general and administrative expenses	6,816	5,108	21,303	15,549
Depreciation & amortization	7,016	6,568	20,298	19,203
	62,640	59,525	191,050	179,742
Operating income	**13,165**	**11,319**	**36,658**	**33,645**
Interest expense	(1,146)	(820)	(3,565)	(2,523)
Interest income	60	178	246	728
Other income (expense)	9	(15)	(8)	(23)
Income tax expense	(3,492)	(2,899)	(9,486)	(8,557)
Net income and comprehensive income	**8,596**	**7,763**	**23,845**	**23,270**
Net income and comprehensive income attributable to				
Shareholders of the Company	8,596	7,763	23,845	22,698
Non-controlling interests	-	-	-	572
Earnings per share[1] – basic	$ 0.23	N/A	$ 0.63	N/A
Earnings per share[1] – diluted	$ 0.22	N/A	$ 0.62	N/A

($CAD 000s)	Three Months Ended September 30,		Nine months Ended September 30,	
	2020	2019	2020	2019
Select financial metrics				
EBITDA	20,190	17,872	56,948	52,825
EBITDA Margin	26.6%	25.2%	25.0%	24.8%

(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 September 30,	
	2020	2019
Select financial position data		
Total assets	240,788	263,374
Total non-current liabilities	103,839	58,178

Consolidated Statements of Changes in Equity

($CAD 000s)	Three Months Ended September 30,		Nine months Ended September 30,	
	2020	2019	2020	2019
Select financial data				
Distributions to related parties	-	-	-	30,000
Dividends	1,880	-	6,049	-

Reconciliation of Non-IFRS Measures

The following table provides a reconciliation of net income and comprehensive income for Q3 2020, Q3 2019, YTD 2020 and YTD 2019:

($CAD 000s)	Three Months Ended September 30,		Nine months Ended September 30,	
	2020	2019	2020	2019
Net income and comprehensive income	8,596	7,763	23,845	23,270
Income tax expense	3,492	2,899	9,486	8,557
Interest expense	1,146	820	3,565	2,523
Interest income	(60)	(178)	(246)	(728)
Depreciation & amortization	7,016	6,568	20,298	19,203
EBITDA	20,190	17,872	56,948	52,825

Results of Operations

Three months ended September 30, 2020 compared with 2019

The following section provides an overview of our financial performance for Q3 2020 and Q3 2019.

<u>Revenue</u>

Revenue for Q3 2020 increased by 7.0% to $75.8 million, compared with Q3 2019. Revenue was impacted by the return of certain healthcare activities such as elective surgical procedures and the re-opening of clinics which use certain products of AHG's clients, including dental clinics, optometric clinics, animal health clinics and veterinary hospitals, as restrictions placed on such activities during Q2 2020 in response to the COVID-19 pandemic were lifted by provincial public health authorities.

Healthcare Logistics Segment

Revenue in our healthcare logistics segment for Q3 2020 was $29.9 million, an increase of 13.4%, or approximately $3.5 million, compared with Q3 2019. The increase in revenue for this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for Q3 2020 was $25.7 million, an increase of 18.3%, or approximately $4.0 million, compared with Q3 2019. The increase reflects greater inbound product volume, storage and handling activities related to our existing client contracts and the implementation of a significant new client contract, which was a key driver behind the opening of our new 220,000 square-foot facility in Brampton, Ontario in July 2020.

Packaging Solutions

Packaging revenue for Q3 2020 was $4.3 million, a decrease of 9.4%, or approximately $0.4 million, compared with Q3 2019. The decline was primarily attributable to measures we implemented in March 2020 to provide for the safety of our employees in connection with the COVID-19 pandemic, including limiting the number of associates in our operations to allow for physical distancing in accordance with public health guidelines, which has temporarily reduced our operating capacity.

Specialized Transportation Segment

Revenue in our specialized transportation segment for Q3 2020 was $45.9 million, an increase of 3.2%, or approximately $1.4 million, compared with Q3 2019. Revenue growth in this segment was primarily driven by the factors set out below.

Air Freight Forwarding

Air freight forwarding revenue for Q3 2020 was $5.7 million, an increase of 18.3%, or approximately $0.9 million, compared with Q3 2019. The increase was partially attributable 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 15% in Q3 2020 versus Q3 2019 as customers expedited shipments in order to adjust to more normal levels of national demand as provincial governments eased COVID-19 related restrictions.

Ground Transportation

Ground transportation revenue for Q3 2020 was $42.9 million, an increase of approximately $1.3 million, compared with Q3 2019. The increase was primarily driven by higher volume, partially offset by lower fuel costs, resulting in approximately 3.2% higher revenue for the quarter.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for Q3 2020 was $6.4 million, an increase of 58.3%, or approximately $2.3 million, compared with Q3 2019. This growth reflects expanded routes for our 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 Q3 2020 was $30.8 million, or 40.6% of revenue, compared with $29.6 million, or 41.7% of revenue, for Q3 2019. The lower cost of transportation and services operating ratios for Q3 2020 reflect lower fuel costs in line with the decrease in revenue related to fuel and savings achieved by effectively managing our variable costs as volume increased through Q3 2020.

Direct Operating Expenses

Direct operating expenses for Q3 2020 were $18.0 million, or 23.7% of revenue, compared with $18.3 million, or 25.8% of revenue, for Q3 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 effective productivity management and other cost controls. During Q3 2020, we continued to qualify 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 $0.9 million, or 1.2% of revenue, was recognized as a reduction of direct operating expense for Q3 2020 as a result of assistance received from the CEWS program.

Selling, General and Administrative Expenses

SG&A expenses for Q3 2020 were $6.8 million, or 9.0% of revenue, compared with $5.1 million, or 7.2% of revenue, for Q3 2019. SG&A expenses for Q3 2020 include share-based compensation arrangements of approximately $0.7 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 stock 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 $0.5 million of cost, or 0.6% of revenue, is included in Q3 2020 SG&A expenses for incremental costs associated with being a public company.

Depreciation and Amortization

Depreciation and amortization for Q3 2020 was $7.0 million compared with $6.6 million for Q3 2019. The increase in depreciation and amortization for Q3 2020 represents a 6.8% year-over-year increase and is attributable to leases for new right-of-use logistics and transportation equipment to support growth in our specialized transportation segment. In addition, we implemented 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 Q3 2020 was effectively $nil compared with other expense of effectively $nil for Q3 2019. These amounts are immaterial to our overall performance for these quarters.

Interest Income

Interest income for Q3 2020 was effectively $nil compared with $0.2 million for Q3 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 Q3 2020 was $1.1 million compared with $0.8 million for Q3 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 Q3 2020 in connection with the Credit Facilities which were entered into at the time of our 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 Q3 2020 was $3.5 million compared with $2.9 million for Q3 2019. Our effective tax rate for Q3 2020 is approximately 2.4% higher than the expected statutory rate of approximately 26.5%, reflecting an increase in taxes resulting from the share-based expenses related to stock options which are non-deductible items. Our effective tax rate for Q3 2019 approximates the expected statutory rate.

Operating Income and Net Income and Comprehensive Income

Operating income for Q3 2020 was $13.2 million, an increase of $1.8 million, or 16.3%, compared with $11.3 million for Q3 2019.

Net income and comprehensive income for Q3 2020 increased by 10.7%, or $0.8 million, to $8.6 million, from $7.8 million for Q3 2019. Higher segment net income before eliminations for both our healthcare logistics operating segment and our specialized transportation operating segment contributed to the increased profitability on a consolidated basis.

EBITDA

EBITDA for Q3 2020 increased by 13.0%, to $20.2 million, from $17.9 million for Q3 2019. EBITDA increased over the year due to the factors discussed above and reflects the absorption of approximately $1.2 million of incremental costs related to share-based compensation arrangements and other public company costs not incurred in Q3 2019.

EBITDA Margin

EBITDA Margin for Q3 2020 was 26.6% compared with 25.2% for Q3 2019. Operating ratios for our two most significant operating costs (cost of transportation and services and direct operating expenses) were lower in Q3 2020 versus Q3 2019.

Nine months ended September 30, 2020 compared with 2019

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

<u>Revenue</u>

Revenue for YTD 2020 increased by 6.7% to $227.7 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 $86.4 million, an increase of 5.2%, or approximately $4.3 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 $70.9 million, an increase of 8.0%, or approximately $5.3 million, compared with YTD 2019. A large new logistics and distribution client implementation commenced in July 2020, which is reflected in YTD 2020 revenue growth. Our existing client base contributed approximately $2.0 million, or 3%, of YTD 2020 revenue growth.

Packaging Solutions

Packaging revenue for YTD 2020 was $15.5 million, a decrease of 5.8%, or approximately $1.0 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, together with a 9.4% decline in Q3 2020 revenue due to the impact of the COVID-19 pandemic. Since the COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020, we have limited the number of associates in our operations to allow for physical distancing in accordance with public health guidelines, which has temporarily reduced our operating capacity.

Specialized Transportation Segment

Revenue in our specialized transportation segment for YTD 2020 was $141.3 million, an increase of 7.6%, or approximately $10.0 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 $16.4 million, an increase of 13.7%, or approximately $2.0 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 and throughout Q3 2020 compared to the same periods in 2019, as wholesalers responded to adjustments by retail pharmacies to return to 90-day prescription fulfillment and customers expedited shipments in order to adjust to more normal levels of national demand when provincial governments allowed economies to re-open in response to declining COVID-19 cases.

Ground Transportation

Ground transportation revenue for YTD 2020 was $128.8 million, an increase of 4.4%, or approximately $5.4 million, compared with YTD 2019. The increase in revenue was primarily driven by increased YTD 2020 volume compared with YTD 2019, partially offset by lower Q2 2020 and Q3 2020 ground transportation fuel-related revenue compared with the same periods in YTD 2019.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for YTD 2020 was $18.8 million, an increase of 58.6%, or approximately $7.0 million, compared with YTD 2019. The increase reflects expanded routes for existing clients which commenced in the second half of 2019. We expect lower revenue growth for Q4 2020 as the impact of these route expansions are reflected in the Q4 2019 baseline. Notwithstanding the foregoing, 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 $92.9 million, or 40.8% of revenue, compared with $88.8 million, or 41.6% of revenue, for YTD 2019. The lower cost of transportation and services operating ratios reflect lower fuel costs for Q2 2020 and Q3 2020 in line with the decrease in ground transportation revenue related to fuel for the same periods, 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 were 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 increased in the months of March and June 2020 and throughout Q3 2020.

Direct Operating Expenses

Direct operating expenses for YTD 2020 were $56.6 million, or 24.9% of revenue, compared with $56.2 million, or 26.3% 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 and Q3 2020, we qualified for the CEWS program in connection with our Nova Pack operations. A total of $1.7 million, or 0.8% of revenue, has been recognized as a reduction of direct operating expense for YTD 2020 as a result of support received from the CEWS program.

Selling, General and Administrative Expenses

SG&A expenses for YTD 2020 were $21.3 million, or 9.4% of revenue, compared with $15.5 million, or 7.3% of revenue, for YTD 2019. SG&A expenses for YTD 2020 include share-based compensation arrangements of approximately $2.3 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 stock 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 $1.8 million of cost, or 0.8% 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 $20.3 million compared with $19.2 million for YTD 2019. The increase of $1.1 million for YTD 2020 represents a 5.7% year-over-year increase and is attributable to leases for new right-of-use logistics and transportation equipment to support growth in our specialized transportation segment. In addition, we implemented 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 $0.7 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 $3.6 million compared with $2.5 million for YTD 2019. Interest expense related to leased facilities and equipment comprises the significant majority of interest expense; however, $0.5 million of interest expense was incurred in YTD 2020 in connection with the Credit Facilities which were entered into at the time of our 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 $9.5 million compared with $8.6 million for YTD 2019. Our effective tax rate for YTD 2020 is approximately 2.0% higher than the expected statutory rate of approximately 26.5%, reflecting an increase in taxes resulting from the share-based expenses related to stock 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 $36.7 million, an increase of $3.0 million, or 9.0%, compared with $33.7 million for YTD 2019.

Net income and comprehensive income for YTD 2020 increased by 2.5%, or $0.6 million, to $23.9 million, from $23.3 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 7.8%, to $56.9 million, from $52.8 million for YTD 2019. The increase in EBITDA was due to the factors discussed above and also reflects the absorption of approximately $4.1 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 25.0%, in line with EBITDA Margin of 24.8% 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	Q3-20	Q2-20	Q1-20	Q4-19	Q3-19	Q2-19	Q1-19	Q4-18
Total revenue	75,805	70,253	81,650	76,601	70,844	71,147	71,396	72,095
Operating income	13,165	11,089	12,404	11,348	11,319	11,404	10,922	8,635
Net income and comprehensive income	8,596	7,067	8,182	7,075	7,763	7,968	7,539	5,919
Net income and comprehensive income attributed to shareholders of the Company	8,596	7,067	8,182	7,075	7,763	7,654	7,281	5,720
EBITDA	20,190	17,959	18,799	17,729	17,872	17,745	17,208	14,850
Earnings per share – basic(1)	$ 0.23	$ 0.19	$ 0.22	$ 0.19	N/A	N/A	N/A	N/A
Earnings per share - diluted(1)	$ 0.22	$ 0.18	$ 0.22	$ 0.19	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 restrictions, but increased in June 2020 as restrictions were lifted by provincial governments. Shipping volumes throughout Q3 2020 returned to more normalized pre-pandemic levels with year-over-year increases averaging in the mid-to-high single digit percentages.

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.

On October 5, 2020, we announced the acquisition of all of the issued and outstanding shares of TDS Logistics Ltd. and McAllister Courier Inc., two regionally focused temperature-controlled transportation businesses, for a purchase price of approximately $15.9 million in cash. These acquisitions were funded from existing cash flow from operations and closed effective October 1, 2020.

Working Capital

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

($CAD 000s)	**As At September 30,**	
	2020	**2019**
Cash and cash equivalents	48,545	36,140
Accounts receivable	50,101	50,624
Inventories	890	953
Prepaid expenses and other	3,340	5,060
Due from related parties	88	59,670
Accounts payable and accrued liabilities	(24,429)	(22,136)
Current portion of lease liabilities	(20,791)	(17,272)
Income taxes payable	(10,102)	(2,791)
Working Capital	46,642	110,248

As at September 30, 2020 we had $46.6 million of working capital compared to $110.2 million of working capital as at September 30, 2019. The $62.6 million decrease in working capital is primarily attributable to the Pre-IPO Reorganization in which distributions to related parties were made that significantly reduced amounts due from related parties.

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 September 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. At September 30, 2020, we were in compliance with all of the covenants under the Credit Facilities.

In order to support future potential growth through acquisitions, the Credit Facilities also include an accordion feature to allow us to increase the commitment under one or both of the Credit Facilities in an aggregate principal amount of up to $100 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 Q3 2020 and YTD 2020 were $0.8 million and $4.1 million, respectively (Q3 2019 and YTD 2019 – $1.8 million and $2.7 million, respectively). Capital expenditures have historically been funded through cash flows from operations. We have traditionally divided our capital expenditures into two subcategories, capital expenditures (maintenance) and capital expenditures (growth), which are further detailed below.

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

Capital Expenditures (Maintenance)

Maintenance capital expenditures refers to capital expenditures necessary for us to sustain our assets in order to continue operating in our current form. We generally seek to maintain our facilities and equipment at a level consistent with the needs of the sector we operate within and ensure that preventative maintenance programs are in place to achieve the performance expected from our facilities and equipment. Outlays for maintenance capital expenditures for Q3 2020 and YTD 2020 were $0.4 million and $1.0 million, respectively (Q3 2019 and YTD 2019 – $0.8 million and $1.2 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 Q3 2020 and YTD 2020 were $0.3 million and $3.1 million, respectively (Q3 2019 and YTD 2019 – $1.0 million and $1.5, 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 nine months ended September 30, 2020 and 2019:

($CAD 000s)	Three Months Ended September 30,		Nine months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Cash flows				
Cash from Operating Activities	17,120	10,381	45,487	34,362
Cash used in Investing Activities	(702)	(1,797)	(4,240)	(2,766)
Cash used in Financing Activities	(7,104)	(5,616)	(11,414)	(49,113)
Net change in cash	9,314	2,968	29,833	(17,517)
Select cash flow data				
Capital expenditures	(761)	(1,796)	(4,087)	(2,653)
Lease payments	(6,420)	(5,497)	(18,109)	(16,472)

Cash Flow Generated From Operating Activities

Cash flows generated from operating activities for Q3 2020 and YTD 2020 totaled $17.1 million and $45.5 million, respectively (Q3 2019 and YTD 2019 - $10.4 million and $34.4 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 Q3 2020 and YTD 2020 totaled $0.7 million and $4.2 million, respectively (Q3 2019 and YTD 2019 - $1.8 million and $2.8 million, respectively). Cash flows were used primarily to support our maintenance and growth capital expenditures.

Cash Flow Used In Financing Activities

We operate our business by utilizing leases to primarily finance our vehicles and facilities, resulting in significant lease payments on an annual basis. Total cash outflow for leases, including interest expense, for Q3 2020 and YTD 2020 was $6.4 million and $18.1 million, respectively (Q3 2019 and YTD 2019 – $5.5 million and $16.5 million, respectively). Further, we paid dividends in Q3 2020 and YTD 2020 of $1.9 million and $6.0 million, respectively (distributions to related parties in Q3 2019 and YTD 2019 – $nil and $30 million, respectively) and fully repaid the balance on our Revolving Credit Facility in Q1 2020 ($3.9 million).

Contractual Obligations

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

- Outstanding letters of guarantee in the amount of $0.2 million (September 30, 2019 – $0.1 million).
- Commitments relating to the leasing of fleet equipment, ranging from 66 to 84 months, beginning upon delivery to us of the equipment in the fourth quarter of 2020, for total lease commitments of $2.5 million.

Credit facilities

As at September 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 Q3 2020, facility lease liabilities are calculated using our incremental borrowing rate of 2.99% (Q3 2019 – 3.77%). Equipment lease terms range from one to five years. For Q3 2020, equipment lease liabilities are calculated using our incremental borrowing rate of 3.15% (Q3 2019 – 4.08%) for our specialized transportation segment and 2.67% (Q3 2019 – 4.08%) for our healthcare logistics segment.

The following table summarizes our contractual obligations as at September 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	112,163	24,354	68,408	19,041
Lease commitments	2,464	411	2,053	-
Other obligations	35,393	35,222	171	-
Total contractual obligations	175,020	59,987	95,632	19,041

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 nine months ended September 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 30,100 Subordinate Voting Shares, representing approximately 66.8% of the issued and outstanding Shares and 89.0% 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 $531 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 $240. Recovery of such lease costs has discontinued in 2020 as the facility has been utilized by AHG.

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 $9 (YTD 2019 - $9) for recovery of shared services costs.

Effective October 1, 2020, we acquired all of the issued and outstanding shares of TDS Logistics Ltd. and McAllister Courier Inc. from AMG for a purchase price of approximately $15,878 in cash, funded from existing cash flow from operations. The acquisition constitutes a "related party transaction" under Multilateral Instrument 61-101 - *Protection of Minority Security Holders in Special Transactions* ("MI 61-101"). The acquisition was reviewed and considered by a special committee of our independent directors. The special committee, with the assistance of independent legal counsel, took a lead role in respect of the examination, review and negotiation of the acquisition and related documentation on behalf of AHG. The acquisition was not subject to the formal valuation and minority approval requirements of MI 61-101 as the fair market value of the transaction was not more than 25% of AHG's market capitalization.

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 $1,342 (YTD 2019 - $1,063) for leases of logistics and transportation equipment; and $1,067 (YTD 2019 - $332) 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 $15 (YTD 2019 - $14) for recovery of shared services costs.

9143-5271 Québec Inc.

9143-5271 Québec Inc. is a subsidiary of AMG and leases a facility located at 655 Desserte E. Hwy 13, Laval, Québec to AHG. We also lease facilities from arm's length providers. During YTD 2020, we expensed $1,085 (YTD 2019 - $862) for this building. We expect to continue leasing this property.

For YTD 2020, we charged 9143-5271 Québec Inc. $24 (YTD 2019 - $23) 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 $2,983 (YTD 2019 - $3,066) 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 $113 (YTD 2019 - $192) for deliveries subcontracted to MCS. We expect to continue subcontracting deliveries to MCS. Similarly, in YTD 2020 we invoiced MCS for $15 (YTD 2019 - $5) for transportation services provided to MCS. For YTD 2020, we charged MCS $9 (YTD 2019 - $9) for recovery of shared services costs.

McAllister Courier Inc.

McAllister Courier Inc. ("MCI") is a subsidiary owned 100% by AMG (until October 1, 2020, at which time MCI became a wholly-owned subsidiary of the Company – see disclosure under AMG above) 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 $682 (YTD 2019 - $693) for deliveries subcontracted to MCI. For YTD 2020 we recovered $21 (YTD 2019 - $nil) for the use of certain of our equipment by MCI.

TDS Logistics Ltd.

TDS Logistics Ltd. ("TDS") is a subsidiary owned 100% by AMG (until October 1, 2020, at which time TDS became a wholly-owned subsidiary of the Company – see disclosure under AMG above) and subcontracts deliveries to us, to take advantage of efficiencies gained through coincidence of delivery. During YTD 2020, we charged $534 (YTD 2019 - $539) 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 $189 (YTD 2019 - $189) for shared services and recovered $273 (YTD 2019 - $273) in equipment rental charges. 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 $469 (YTD 2019 - $352) for deliveries subcontracted to it by AHG.

During YTD 2019 we provided TDS with leased facility space, which is a cost recovery. For YTD 2020 we recovered $492 (YTD 2019 - $492) of facility lease costs from TDS.

AWA Transportation & Logistics Inc.

AWA Transportation & Logistics Inc. ("AWA") is a subsidiary owned 100% by AMG. AWA provides transportation services to AHG, providing extended reach for shipments where we do not have our own facilities or equipment. We purchased $546 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 AHG, providing extended reach for shipments where we do not have our own facilities or equipment. We 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 $46 (YTD 2019 - $36) for warehouse racking installation, maintenance and repair services provided by DCR and Logiserv, and purchased $nil (YTD 2019 - $259) in warehouse racking and racking components from Logiserv Inc. 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 $164 (YTD 2019 - $127) 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 September 30,	
	2020	**2019**
Accounts receivable		
Andlauer Management Group Inc.	-	60
AWA Transportation Services	16	-
TDS Logistics Ltd.	203	538
McAllister Courier Inc.	3	-
Med Express Ltd.	1	-
Andlauer Properties and Leasing Inc.	-	17
9143-5271 Quebec Inc.	-	10
1708998 Ontario Limited (Medical Courier Services)	10	1
Trade receivables due from related parties	233	626
Due from related parties		
Andlauer Management Group Inc.	-	55,930
Andlauer Properties and Leasing Inc.	50	2,723
Andlauer Sports & Entertainment Inc.	-	236
TDS Logistics Ltd.	38	674
M. Andlauer	-	107
	88	59,670
Total due from related parties	**321**	**60,296**
Accounts payable and accrued liabilities		
Ready Staffing Solutions Inc.	149	345
McAllister Courier Inc.	51	47
TDS Logistics Ltd.	88	52
Andlauer Properties and Leasing Inc.	120	-
Andlauer Management Group Inc.	-	130
Logiserv Inc.	-	125
C-GHBS Inc.	27	-
Trade payables due to related parties	435	699
Due to related parties		
Andlauer Management Group Inc.	70	-
	70	-
Total due to related parties	**505**	**699**

Critical Accounting Judgements and Estimates

The preparation of our unaudited interim condensed consolidated financial statements for the three and nine months ended September 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, our incremental borrowing rate, valuation of property, plant and equipment, valuation of goodwill and intangible assets, the measurement of identified assets and liabilities acquired in business combinations, share-based compensation arrangements, the provision for income taxes and other provisions and contingencies. These estimates and assumptions are based on management's best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. Actual results could differ from these estimates. Changes in those estimates and assumptions resulting from changes in the economic environment will be reflected in the consolidated financial statements of future periods. Information about critical judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year 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 our unaudited interim condensed consolidated financial statements for Q3 2020.

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 Q3 2020:

<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 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. 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 we are not, or would not, be in default under the Credit Facilities or in non-compliance with any financial covenants and an event of default does not or would not exist, after giving effect thereto and provided that all representations and warranties are true and correct immediately prior to, and after giving effect to, such increase. As at September 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

We have a Revolving Credit Facility and Term Facility that each bear interest at a floating rate subject to fluctuations in interest rates. Changes in interest rates can cause fluctuations in interest payments and cash flows. We do not use derivative financial instruments to mitigate the effect of this risk. The Credit Facilities are available to be drawn in Canadian dollars by way of prime rate loans, bankers' acceptances and letters of credit, and in U.S. dollars by way of base rate loans, LIBOR based loans and letters of credit, in each case, plus the applicable margin in effect from time to time. At September 30, 2020, the term facility comprises bankers' acceptances drawn at an interest rate of 1.93%.

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

Currency risk

We enter into foreign currency purchase and sale transactions and have assets and liabilities that are denominated in foreign currencies and thus are exposed to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. We do not currently use derivative instruments to reduce our 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 18,768 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 30,100 of the Subordinate Voting Shares, representing approximately 66.8% of the issued and outstanding Shares and 89.0% 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 Q3 2020 dividend, in the amount of $0.05 per Share, was paid on October 15, 2020 for the period beginning on July 1, 2020 and ending on September 30, 2020, to shareholders of record as at September 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 AHG is made known to the CEO and CFO by others, particularly during the period in which the interim and annual filings are being prepared; and
- information required to be disclosed by AHG in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal controls over financial reporting

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

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

Changes in internal controls over financial reporting

No changes were made to our ICFR during Q3 2020 that have materially affected, or are reasonably likely to materially affect, our ICFR.

Additional Information

Additional information about AHG, including our AIF, can be found on our profile on SEDAR at www.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 nine months ended September 30, 2020 and 2019

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

Assets	Note	September 30, 2020	December 31, 2019
Current assets			
Cash and cash equivalents		$ 48,545	$ 18,712
Accounts receivable		50,101	51,060
Inventories		890	1,071
Prepaid expenses and other		3,340	2,307
Due from related parties	13	88	239
Due from employee trust	2	-	13,875
		102,964	87,264
Non-current assets			
Long-term deposits		1,030	938
Property, plant and equipment		113,828	103,326
Goodwill and intangible assets		21,199	21,421
Deferred income taxes	10	1,767	46
Total Assets		**$ 240,788**	**$ 212,995**
Liabilities and Equity			
Current liabilities			
Revolving credit facility	4	$ -	$ 3,929
Accounts payable and accrued liabilities		24,429	24,942
Current portion of lease liabilities	11	20,791	19,129
Income taxes payable		10,102	8,695
		55,322	56,695
Long-term liabilities			
Lease liabilities	11	79,029	69,584
Deferred income taxes	10	101	321
Due to related parties	13	70	335
Term facility	4	24,639	24,555
Total Liabilities		**159,161**	**151,490**
Equity			
Common share capital	6	549,679	549,679
Contributed surplus	8	3,720	1,394
Merger reserve	2	(488,916)	(488,916)
Retained earnings (deficit)		17,144	(652)
		81,627	61,505
Commitments and contingencies	12		
Subsequent event	16		
Total Liabilities and Equity		**$ 240,788**	**$ 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 nine months ended September 30, 2020 and 2019

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

	Note	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Revenue	9	**$ 75,805**	**$ 70,844**	**$ 227,708**	**$ 213,387**
Operating Expenses					
Cost of transportation and services		30,812	29,570	92,850	88,784
Direct operating expenses		17,996	18,279	56,599	56,206
Selling, general and administrative expenses		6,816	5,108	21,303	15,549
Depreciation and amortization		7,016	6,568	20,298	19,203
		62,640	59,525	191,050	179,742
Operating Income		**13,165**	**11,319**	**36,658**	**33,645**
Interest expense		(1,146)	(820)	(3,565)	(2,523)
Interest income		60	178	246	728
Other income (expenses)		9	(15)	(8)	(23)
Income before income taxes		**12,088**	**10,662**	**33,331**	**31,827**
Current income tax expense	10	4,078	3,064	11,427	8,956
Deferred income tax recovery	10	(586)	(165)	(1,941)	(399)
		3,492	2,899	9,486	8,557
Net income and comprehensive income		**8,596**	**7,763**	**23,845**	**23,270**
Net income attributable to:					
Shareholders of the Company		8,596	7,763	23,845	22,698
Non-controlling interests		-	-	-	572
		$ 8,596	**$ 7,763**	**$ 23,845**	**$ 23,270**
Net earnings per share attributable to the Shareholders of the Company:					
Basic earnings per share	7	**$ 0.23**	**$ N/A**	**$ 0.63**	**$ N/A**
Diluted earnings per share	7	**$ 0.22**	**$ N/A**	**$ 0.62**	**$ 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 nine months ended September 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** (note 2)	**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	-	-	-	-	23,845	-	-	23,845
Share-based compensation (note 8)	-	-	-	2,326	-	-	-	2,326
Dividends (note 6)	-	-	-	-	(6,049)	-	-	(6,049)
Balance at September 30, 2020	**37,600**	**$ 549,679**	**$ (488,916)**	**$ 3,720**	**17,144**	**$ -**	**$ -**	**$ 81,627**
Balance at December 31, 2018	-	$ -	$ -	$ -	$ -	$ 163,811	$ 5,917	$ 169,728
Net income and comprehensive income for the period	-	-	-	-	-	22,698	572	23,270
Distributions to related parties	-	-	-	-	-	(30,000)	-	(30,000)
Adjustments on acquisition of NCI	-	-	-	-	-	6,489	(6,489)	-
Balance at September 30, 2019	**-**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 162,998**	**$ -**	**$ 162,998**

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

Andlauer Healthcare Group Inc.

Consolidated Statements of Cash Flow

For the nine months ended September 30, 2020 and 2019

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

	Note	September 30, 2020	September 30, 2019
Operating activities			
Net income for the period		$ 23,845	$ 23,270
Changes not involving cash:			
Depreciation and amortization		20,298	19,203
Adjustment to capitalized financing costs	4	84	-
Share-based compensation	8	2,326	-
Deferred income tax recovery	10	(1,941)	(399)
Derecognition of right-of-use assets and liabilities	11	(34)	-
		44,578	42,074
Changes in non-cash operating working capital:			
Accounts receivable		959	(2,194)
Inventories		181	413
Accounts payable and accrued liabilities		(513)	(4,961)
Income taxes payable		1,407	2,750
Net change in other operating working capital balances		(1,125)	(3,720)
Cash flows from operating activities		**45,487**	**34,362**
Financing activities			
Distributions to related parties		-	(30,000)
Dividends	6	(6,049)	-
Principal repayments on lease liabilities	11	(15,197)	(14,084)
Net change in related party balances		(114)	(5,029)
Loan to employee trust	2	13,875	-
Repayment of revolving credit facility	4	(3,929)	-
Cash flows used in financing activities		**(11,414)**	**(49,113)**
Investing activities			
Purchase of property, plant and equipment		(4,087)	(2,653)
Purchase of intangible assets, net		(153)	(113)
Cash flows used in investing activities		**(4,240)**	**(2,766)**
Net increase (decrease) in cash and cash equivalents		29,833	(17,517)
Cash and cash equivalents, beginning of period		18,712	53,657
Cash and cash equivalents, end of period		**$ 48,545**	**$ 36,140**

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. As of the date hereof, AMG holds all of the issued and outstanding multiple voting shares and 30,100 subordinate voting shares of AHG, representing approximately 66.8% of the issued and outstanding shares and 89.0% 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. Certain comparative information has been reclassified to conform to the current period's presentation.

These consolidated financial statements were authorized for issue by the Board of Directors effective November 10, 2020.

b) Basis of measurement

These consolidated financial statements comprise the consolidated financial results of AHG as at and for the three and nine months ended September 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 nine month periods ended September 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 nine months ended September 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 nine months ended September 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.

On June 13, 2019, the outstanding equity interests in Associated Logistics Solutions Inc. were purchased, reducing the non-controlling interest ownership percentage from 15% to nil. The carrying amount of NCI purchased at the time of the transaction was $6,489, after giving effect to income attributable to NCI for the period of $572. As the transaction was with the ultimate parent the transaction reduced NCI by $6,489 and increased net parent investment by the same amount.

(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 parties under 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.

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

2. Basis of presentation (continued)

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.

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 September 30, 2020 and 2019 and for the three months and nine months then ended:

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at September 30, 2020 and for the three months then ended					
Revenue	$ 55,039	$ 29,943	$ 600	$ (9,777)	$ 75,805
Segment income before tax	10,346	2,896	(1,154)	-	12,088
Interest income	31	9	20	-	60
Interest expense	(542)	(481)	(123)	-	(1,146)
Depreciation and amortization	(4,085)	(2,931)	-	-	(7,016)
Segment net income	7,574	2,136	(1,114)	-	8,596
Segment total assets	141,596	113,249	593,684	(607,741)	240,788
Additions of ROU assets	894	5,676	-	-	6,570
Capital expenditures	240	520	-	-	760
Segment total liabilities	74,693	63,269	51,919	(30,720)	159,161

(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 September 30, 2019 and for the three months then ended					
Revenue	$ 50,472	$ 26,408	$ -	$ (6,036)	$ 70,844
Segment income before tax	7,914	2,748	-	-	10,662
Interest income	142	36	-	-	178
Interest expense	(425)	(395)	-	-	(820)
Depreciation and amortization	(4,198)	(2,370)	-	-	(6,568)
Segment net income	5,778	1,985	-	-	7,763
Segment total assets	174,088	92,794	-	(3,508)	263,374
Additions of ROU assets	3,364	-	-	-	3,364
Capital expenditures	572	1,223	-	-	1,795
Segment total liabilities	57,029	46,855	-	(3,508)	100,376
As at September 30, 2020 and for the nine months then ended					
Revenue	$ 163,986	$ 86,365	$ 1,800	$ (24,443)	$ 227,708
Segment income before tax	29,353	7,948	(3,970)	-	33,331
Interest income	170	56	20	-	246
Interest expense	(1,657)	(1,370)	(538)	-	(3,565)
Depreciation and amortization	(12,154)	(8,144)	-	-	(20,298)
Segment net income	21,517	5,824	(3,496)	-	23,845
Segment total assets	141,596	113,249	593,684	(607,741)	240,788
Additions of ROU assets	6,361	20,345	-	-	26,706
Capital expenditures	376	3,711	-	-	4,087
Segment total liabilities	74,693	63,269	51,919	(30,720)	159,161
As at September 30, 2019 and for the nine months then ended					
Revenue	$ 149,636	$ 82,062	$ -	$ (18,311)	$ 213,387
Segment income before tax	23,796	8,031	-	-	31,827
Interest income	656	72	-	-	728
Interest expense	(1,287)	(1,236)	-	-	(2,523)
Depreciation and amortization	(12,077)	(7,126)	-	-	(19,203)
Segment net income	17,383	5,887	-	-	23,270
Segment total assets	174,088	92,794	-	(3,508)	263,374
Additions of ROU assets	10,122	16	-	-	10,138
Capital expenditures	1,109	1,544	-	-	2,653
Segment total liabilities	57,029	46,855	-	(3,508)	100,376

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

3. Segment reporting (continued)

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

	September 30, 2020	December 31, 2019
Revolving credit facility	$ -	$ 3,929
Term facility	25,000	25,000
	25,000	28,929
Less: financing costs	(361)	(445)
	$ 24,639	**$ 28,484**

Recorded in the consolidated balance sheets as follows:

	September 30, 2020	December 31, 2019
Revolving credit facility	$ -	$ 3,929
Term facility	24,639	24,555
	$ 24,639	**$ 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	84
Balance at September 30, 2020	**$ 24,639**

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

4. Credit facilities (continued)

applicable margin in effect from time to time. At September 30, 2020, the term facility comprises bankers' acceptances drawn at an interest rate of 1.93%.

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

The credit facilities are subject to customary negative covenants and include financial covenants requiring the Company to maintain at all times a maximum net leverage ratio and a minimum interest coverage ratio, tested on a quarterly basis. At September 30, 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 nine months ended September 30, 2020 was $123 and $537 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 a 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. As of the date hereof, all of the multiple voting shares and 30,100 subordinate voting shares are owned by the Company's parent, AMG. At September 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 nine months ended September 30, 2020, the Company declared total dividends of $6,049 on subordinate voting and multiple voting common shares. Included in accounts payable and accrued liabilities as at September 30, 2020 is $1,880, or $0.05 per common share, for dividends paid on October 15, 2020 to common shareholders of record on September 30, 2020.

7. Earnings per share

Comparative earnings per share data is not presented for the three and nine months ended September 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 September 30, 2020	Nine months ended September 30, 2020
Net income attributable to the common shareholders of the Company	$ 8,596	$ 23,845
Weighted average number of common shares	37,600	37,600
Earnings per share – basic	**$ 0.23**	**$ 0.63**

Diluted earnings per share

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

(in thousands of dollars and number of shares)	Three months ended September 30, 2020	Nine months ended September 30, 2020
Net income attributable to the common shareholders of the Company	$ 8,596	$ 23,845
Weighted average number of common shares	37,600	37,600
Dilutive effects:		
Stock options	969	767
Deferred share units	4	19
Weighted average number of diluted common shares	38,573	38,386
Earnings per share – diluted	**$ 0.22**	**$ 0.62**

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 treasury method as each installment is fair valued separately and recorded over the respective vesting periods.

8. Share-based payment arrangements (continued)

Stock option plan (equity-settled) (continued)

On December 11, 2019 the Board of Directors approved a grant of 1,650 thousand options. Of the options outstanding at September 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 September 30, 2020 (December 31, 2019 – 350 thousand).

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

	Nine months ended September 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 September 30, 2020	**350**	**$ 15.00**

The Company recognized compensation expense of $593 and $1,778 for the three and nine months ended September 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.

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

8. Share-based payment arrangements (continued)

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 nine months ended September 30, 2020, the Company recognized a compensation expense of $155 and $548 respectively, with corresponding increases to contributed surplus (September 30, 2019 – $nil and $nil respectively).

The table below summarizes the changes in the outstanding DSUs:

(thousands of DSUs)	**September 30, 2020**
Outstanding at December 31, 2019	-
Granted	19
Outstanding at September 30, 2020	**19**

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 September 30, 2020**	**Three months ended September 30, 2019**	**Nine months ended September 30, 2020**	**Nine months ended September 30, 2019**
Logistics and distribution	$ 25,682	$ 21,707	$ 70,909	$ 65,647
Packaging solutions	4,261	4,701	15,456	16,415
Healthcare Logistics segment	29,943	26,408	86,365	82,062
Ground transportation	42,946	41,609	128,779	123,355
Air freight forwarding	5,736	4,848	16,391	14,420
Dedicated and last mile delivery	6,357	4,015	18,816	11,861
Intersegment revenue	(9,177)	(6,036)	(22,643)	(18,311)
Specialized Transportation segment	45,862	44,436	141,343	131,325
Total revenue	**$ 75,805**	**$ 70,844**	**$ 227,708**	**$ 213,387**

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

9. Revenue (continued)

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 September 30, 2020 there was $1,268 (September 30, 2019 – $702) recorded in accounts payable and accrued liabilities. Revenue recognized in the first nine months of 2020 of $879 (September 30, 2019 – $635) was included in the opening deferred revenue balance at the beginning of the period.

10. Income taxes

A. Amounts recognized in profit or loss

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Current income tax expense:				
Current taxes on income for the reporting period	$ 4,078	$ 3,064	$ 11,427	$ 8,956
Deferred income tax recovery:				
Origination and reversal of temporary differences	(586)	(165)	(1,941)	(399)
Income tax expense reported to the statements of income and comprehensive income	**$ 3,492**	**$ 2,899**	**$ 9,486**	**$ 8,557**

Total cash outflow for actual taxes paid for the three and nine months ended September 30, 2020 was $3,933 and $10,029 respectively (2019 – $1,923 and $7,340).

B. Reconciliation of effective tax rate

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Income before income taxes	$ 12,088	$ 10,662	$ 33,331	$ 31,827
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	3,203	2,825	8,833	8,434
Increase in income taxes resulting from non-deductible items or other adjustments	289	74	653	123
Total income tax expense	**$ 3,492**	**$ 2,899**	**$ 9,486**	**$ 8,557**

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

10. Income taxes (continued)

C. **Deferred taxes**

	September 30, 2020	December 31, 2019
Deferred tax assets	$ 1,767	$ 46
Deferred tax liabilities	(101)	(321)
Net deferred tax asset (liability)	**$ 1,666**	**$ (275)**

D. **Movement in deferred tax balances**

	September 30, 2020	Movement	December 31, 2019	Movement	September 30, 2019	Movement	December 31, 2018
Plant and equipment	$ (519)	$ -	$ (519)	$ (90)	$ (429)	$ (169)	$ (260)
Accounts payable and accrued liabilities	268	-	268	(58)	326	-	326
Intangibles	709	-	709	218	491	295	196
Income deferred for tax purposes	121	1,617	(1,496)	(626)	(870)	-	(870)
Leases	1,087	324	763	(56)	819	123	696
Net deferred tax asset (liability)	**$ 1,666**	**$ 1,941**	**$ (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.

	September 30, 2020		December 31, 2019	
	Gross amount	Tax effect	Gross amount	Tax effect
Deductible temporary differences	$ 14,442	$ 3,827	$ 14,321	$ 3,795
Tax losses	1,300	345	1,021	271
	$ 15,742	**$ 4,172**	**$ 15,342**	**$ 4,066**

The tax losses of $1,300 will commence expiring 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 estimates its incremental borrowing rates for portfolios of leases with similar characteristics, such as similar risk profiles, same or similar types of security, and similar lease terms. Building lease terms range from 5 to 10 years. Facilities lease liabilities are calculated using the Company's incremental borrowing rate based on the specific lease commitments and term for each facility. The average incremental borrowing rate for facilities for the nine months ended September 30, 2020 is 2.99% (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 nine months ended September 30, 2020 is 3.15% 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 nine months ended September 30, 2020**	**As at and for the year ended December 31, 2019**
Opening balance	$ 56,285	$ 49,634
Add: additions	20,407	17,708
Less: derecognition	(185)	-
Less: depreciation	(9,725)	(11,057)
Ending balance	**$ 66,782**	**$ 56,285**

Right-of-use assets – Logistics and transportation equipment	**As at and for the nine months ended September 30, 2020**	**As at and for the year ended December 31, 2019**
Opening balance	$ 28,018	$ 25,400
Add: additions	6,299	11,145
Less: derecognition	(183)	-
Less: depreciation	(6,864)	(8,527)
Ending balance	**$ 27,270**	**$ 28,018**

Net carrying amounts of right-of-use assets included in property, plant and equipment	**September 30, 2020**	**December 31, 2019**
Facilities	$ 66,782	$ 56,285
Logistics and transportation equipment	27,270	28,018
Balance	**$ 94,052**	**$ 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 nine months ended September 30, 2020**	**As at and for the year ended December 31, 2019**
Opening balance	$ 60,948	$ 53,927
Add: additions	20,407	17,583
Add: interest expense	2,064	2,238
Less: derecognition	(212)	-
Less: repayments	(8,525)	(10,562)
Less: interest payments	(2,064)	(2,238)
Ending balance	**$ 72,618**	**$ 60,948**

Lease liabilities – Logistics and transportation equipment	**As at and for the nine months ended September 30, 2020**	**As at and for the year ended December 31, 2019**
Opening balance	$ 27,765	$ 25,093
Add: additions	6,299	11,146
Add: interest expense	848	1,019
Less: derecognition	(190)	-
Less: repayments	(6,672)	(8,474)
Less: interest payments	(848)	(1,019)
Ending balance	**$ 27,202**	**$ 27,765**

Cash lease principal payments	**Nine months ended September 30, 2020**	**Year ended December 31, 2019**
Repayments of lease principal	$ (15,197)	$ (19,036)
Pre-payment of leases	-	(125)
Total lease payments	**$ (15,197)**	**$ (19,161)**

Lease liabilities	**September 30, 2020**	**December 31, 2019**
Facilities	$ (72,618)	$ (60,948)
Logistics and transportation equipment	(27,202)	(27,765)
Balance	**$ (99,820)**	**$ (88,713)**

Lease liabilities included in consolidated balance sheets	**September 30, 2020**	**December 31, 2019**
Current	$ (20,791)	$ (19,129)
Non-current	(79,029)	(69,584)
Balance	**$ (99,820)**	**$ (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	September 30, 2020	December 31, 2019
Less than one year	$ 24,354	$ 22,407
One to 5 years	68,408	58,882
More than 5 years	19,401	19,092
Total undiscounted lease liabilities	**$ 112,163**	**$ 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 nine months ended September 30, 2020 was $987 and $2,912 respectively (September 30, 2019 – $779 and $2,388). Total cash outflow for leases for the three and nine months ended September 30, 2020 was $6,420 and $18,109 respectively (September 30, 2019 – $5,497 and $16,472).

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 September 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 fourth quarter of 2020. Commitments range from 60 to 84 months and total $2,464.

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.

Please refer to note 16 for additional information in connection with the acquisition of two related parties subsequent to September 30, 2020.

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

13. Related parties (continued)

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Revenue				
Transportation services				
TDS Logistics Ltd.	$ 176	$ 181	$ 534	$ 539
1708998 Ontario Limited (Medical Courier Services)	6	3	15	5
Facility rent recovery				
TDS Logistics Ltd.	164	164	492	492
Andlauer Management Group Inc.	-	80	-	240
Shared service recovery				
TDS Logistics Ltd.	63	63	189	189
Andlauer Properties and Leasing Inc.	5	4	15	14
Andlauer Management Group Inc.	3	3	9	9
9143-5271 Quebec Inc.	8	7	24	23
1708998 Ontario Limited (Medical Courier Services)	3	3	9	9
Equipment rental recovery				
TDS Logistics Ltd.	91	91	273	273
McAllister Courier Inc.	9	-	21	-
Expenses				
Transportation services				
McAllister Courier Inc.	241	245	682	693
1708998 Ontario Limited (Medical Courier Services)	50	57	113	192
TDS Logistics Ltd.	178	182	469	352
AWA Transportation & Logistics Inc.	253	-	546	-
Med Express Ltd.	-	-	11	-
Contract labour services				
Ready Staffing Solutions Inc.	998	1,049	2,983	3,066
Equipment rent				
Andlauer Properties and Leasing Inc.	472	372	1,342	1,063
Shared services				
Andlauer Management Group Inc.	-	177	-	531
Facility rent				
Andlauer Properties and Leasing Inc.	358	108	1,067	332
9143-5271 Quebec Inc.	383	288	1,085	862
Maintenance services				
D.C. Racking and Maintenance Inc. and Logiserv Inc.	17	16	46	36
Travel services				
C-GHBS Inc.	132	127	164	127
Capital asset purchases				
Logiserv Inc.	-	259	-	259

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

13. Related parties (continued)

	September 30, 2020	December 31, 2019
Trade receivables due from related parties		
Andlauer Management Group Inc.	$ -	$ 60
AWA Transportation Services	16	-
TDS Logistics Ltd.	203	380
McAllister Courier Inc.	3	-
Med Express Ltd.	1	-
1708998 Ontario Limited (Medical Courier Services)	10	-
9143-5271 Quebec Inc.	-	1
Total trade receivables	$ 233	$ 441
Due from related parties		
Andlauer Management Group Inc.	-	53
Andlauer Properties and Leasing Inc.	50	186
TDS Logistics Ltd.	38	-
	88	239
Total due from related parties	**$ 321**	**$ 680**

Trade payables due to related parties		
Ready Staffing Solutions Inc.	$ 149	$ 397
McAllister Courier Inc.	51	71
TDS Logistics Ltd.	88	100
Andlauer Properties and Leasing Inc.	120	1,196
Med Express	-	1
D.C. Racking and Maintenance Inc.	-	1
Logiserv Inc.	-	69
Bulldog Hockey Inc.	-	28
C-GHBS Inc.	27	153
Total trade payables	435	2,016
Due to related parties		
M. Andlauer	-	161
Andlauer Management Group Inc.	70	-
TDS Logistics Ltd.	-	174
	70	335
Total due to related parties	**$ 505**	**$ 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 nine months ended September 30, 2020, the Company recorded $1,099 and $3,318 respectively (September 30, 2019 - $598 and $1,793) 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.

	September 30, 2020	December 31, 2019
Total liabilities	$ 159,161	$ 151,490
Less: cash and cash equivalents	(48,545)	(18,712)
Net debt	110,616	132,778
Last twelve months' net income	30,920	30,345
Last twelve months' interest income	(522)	(1,004)
Last twelve months' interest expense	4,545	3,503
Last twelve months' income tax expense	12,933	12,004
Last twelve months' depreciation and amortization	26,801	25,706
Last twelve months' EBITDA	74,677	70,554
Net leverage ratio	1.48	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)

For the three and nine months ended September 30, 2020, the Company qualified for and received $689 and $1,530 respectively 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 September 26, 2020 and recorded a receivable of $210 as at September 30, 2020. A total of $1,740 has been recognized as a reduction of direct operating expenses for the nine months ended September 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.

16. Subsequent event

Effective October 1, 2020, the Company acquired all of the issued and outstanding shares of TDS Logistics Ltd. and McAllister Courier Inc., from Andlauer Management Group Inc. for cash consideration of $15,878, the estimated fair value of the businesses acquired. The acquisition is a related party transaction given the entities are under common control. The acquisition was reviewed and considered by a special committee of the Company's independent directors. The special committee, with the assistance of independent legal counsel, took a lead role in respect of the examination, review and negotiation of the acquisition and related documentation on behalf of the Company.