Andlauer
HEALTHCARE GROUP

ANNUAL REPORT 2020

A VITAL LINK IN HEALTHCARE

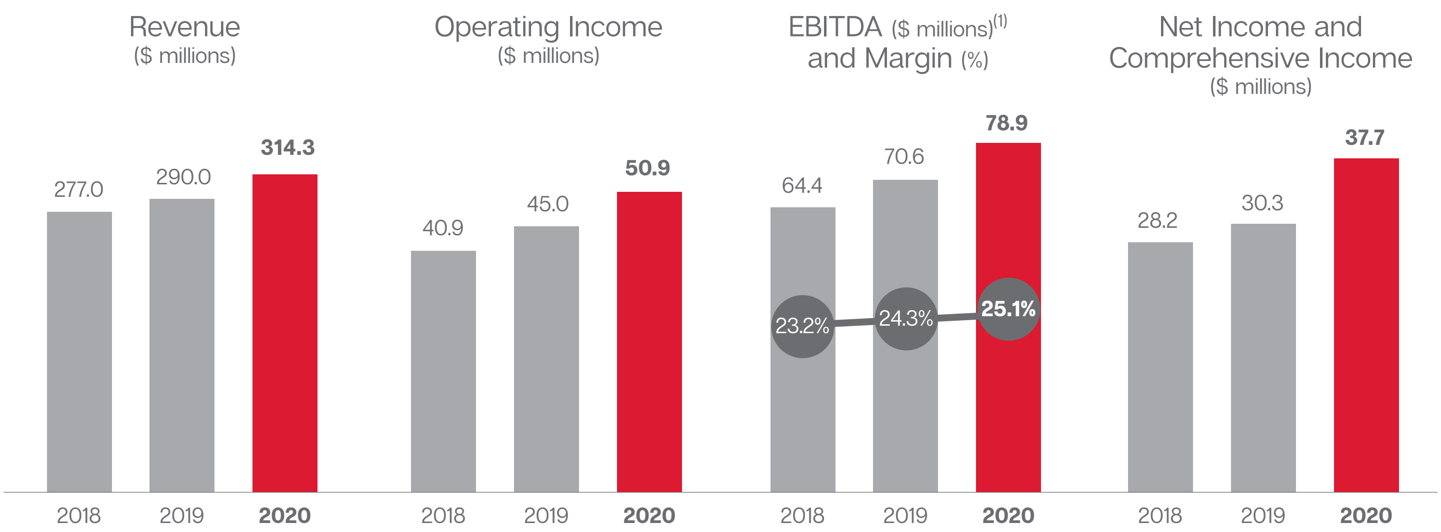
Profile

Andlauer Healthcare Group Inc. (TSX: AND) is a leading and growing supply chain management company offering a robust platform of customized third-party logistics ("3PL") and specialized transportation solutions for the healthcare sector. Our 3PL services include customized logistics, distribution and packaging solutions for healthcare manufacturers across Canada. Our specialized transportation services, including air freight forwarding, ground transportation, dedicated delivery and last mile services, provide a one-stop shop for our clients' healthcare transportation needs. Through our complementary service offerings, available across a coast-to-coast distribution network, we strive to accommodate the full range of our clients' specialized supply chain needs on an integrated and efficient basis.

Operational Highlights

- We implemented our new 220,000 square-foot state-of-the-art logistics and distribution facility in Brampton, Ontario, commencing operations at the new facility in July 2020;
- We completed the tuck-in acquisitions of TDS Logistics Ltd. and McAllister Courier Inc. for a combined purchase price of $15.9 million;
- Subsequent to year-end, on March 1, 2021, we completed the acquisitions of 100% of Skelton Canada Inc. and 49% of Skelton USA Inc. for total aggregate consideration of approximately $114.7 million, subject to customary working capital adjustments; and
- We successfully maintained service levels across our operations, while closely monitoring the safety measures we implemented in response to COVID-19 to prioritize the health and safety of our personnel, clients, and suppliers.

Financial Performance



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

To our shareholders,

On behalf of the Board of Directors and management of Andlauer Healthcare Group Inc. ("AHG") and our team of nearly 2,000 employees and owner/operators across Canada, I am pleased to present AHG's 2020 Annual Report.

Michael Andlauer
Chief Executive Officer

2020 was our first full year as a public company, following the completion of our initial public offering ("IPO") on the Toronto Stock Exchange in December 2019. We were just 70 days into our inaugural year as a public company when the COVID-19 outbreak was declared a global pandemic by the World Health Organization on March 11th. We responded by rapidly implementing measures to prioritize the health and safety of our people and partners, and to ensure that our operations were not disrupted. We are an essential business in the Canadian healthcare industry and our people truly made a difference in ensuring continuity of our business.

From our management team, who have met every day since last March to assess our heightened safety measures and business continuity plans, to our personnel handling the products and to our frontline delivery drivers and owner/operators, it has been a truly collaborative effort to ensure the timely delivery of essential products to hospitals, pharmacies, and clinics across Canada. This is a testament to our strong shared culture at AHG.

Our 2020 financial results demonstrate our success in managing through the pandemic, the resiliency of our business and our focus on generating steady organic growth by leveraging our unique national platform to provide specialized supply-chain solutions to the growing healthcare industry in Canada. Our revenue and operating income for 2020 increased by 8.4% and 13.2%, respectively, compared to 2019. Net income increased 24.3% year-over-year to $37.7 million and EBITDA totaled $78.9 million, 11.8% ahead of last year. Our EBITDA margin was 25.1% in 2020, up from 24.3% in 2019.

We also demonstrated our commitment to advancing the growth strategy that we presented at the time of our IPO. During 2020, we continued to strengthen our clients' connection to our platform by broadening our service offering, including the expansion of our dedicated and last mile delivery product line. We also expanded our capacity to attract both new clients and new business with the opening of our new, state-of-the-art, 220,000 square-foot facility in Brampton, Ontario this past July. We have allocated half of this facility to a new customer implementation and we have a solid pipeline of opportunities to fill the remaining capacity in 2021.

In December, we completed our first tuck-in acquisitions as a public company with the purchase of TDS Logistics Ltd. and McAllister Courier Inc. for a combined price of $15.9 million. These two regionally focused temperature-controlled transportation businesses generated approximately $22 million of net revenue in 2019, and both increased the reach of our services and expanded our market presence in Ontario.

Subsequent to year-end, on March 1, 2021, we completed the acquisitions of 100% of Skelton Canada Inc. and 49% of Skelton USA Inc. for a total purchase price of approximately $114.7 million. These acquisitions represent a major milestone for AHG as they significantly expand our footprint, fortify our competitive strengths and, through our minority interest in Skelton USA, provide us with strategic access to the U.S. market though a well-established operator. Skelton Canada and USA share the same values as AHG, including a deep commitment to customers and each other. We expect the acquisitions to be immediately accretive to cash flow and earnings per share.

Skelton Canada is a leading transportation partner to the Canadian pharmaceutical and biologics industry, with nationwide reach and a fleet offering validated temperature control, state-of-the-art security systems and real-time shipment monitoring. Skelton Canada specializes in 2°C to 8°C and less than -20°C shipments, so we have significantly expanded our capacity in this area.

Skelton USA really took off in 2017 as a result of their pharmaceutical customers “pulling” them into the domestic U.S. market. Skelton USA has been growing rapidly by successfully leveraging the Skelton reputation and brand for cold chain expertise.

AHG is differentiated in the highly fragmented healthcare logistics and transportation market by our unique competitive strengths, including: end-to-end validated temperature management, regulatory compliance and quality assurance, technology-enabled visibility and temperature monitoring capability throughout the supply chain, and security. We offer these services across a national platform in Canada that is unique to AHG. Through ATS Healthcare and Skelton Canada, we now provide specialized transportation services, directly or indirectly, in Canada for all of the top 25 global pharmaceutical manufacturers. Through Accuristix, we manage the Canadian finished goods distribution of more than $7 billion in pharmaceutical product sales.

AHG is supporting the logistics and distribution of COVID-19 vaccines in certain regions of Canada. We have been contracted by the Government of Ontario to store and transport COVID vaccines and ancillary products. We’re working locally with provincial health units in Ontario and Alberta to deliver vaccines to hospitals or redistribute to other points, including long-term care facilities. We’ve also had orders for our Credo packaging products from nine provinces, one territory, the Public Health Agency of Canada and other prominent healthcare distributors, to help support vaccine distribution. Our involvement in supporting COVID-19 vaccine logistics and distribution will increase as the volumes available to Canadians scale up in the coming months.

Looking ahead, we remain well positioned in a very attractive market. Spending on healthcare logistics and transportation has been outpacing GDP growth in Canada and this growth is expected to continue due to: favourable demographic trends, an increasing number of healthcare and adjacent products with unique logistical needs, and continually evolving industry regulation. Further, demand for distributed ancillary services is increasing as healthcare companies focus more on their core competencies.

We expect continued strong performance in 2021, supported by ongoing organic growth, a full year of contributions from our acquisitions of TDS Logistics and McAllister Courier, and of course, contributions from both Skelton Canada and our interest in Skelton USA. We remain focused on continuing to advance the growth strategies that have contributed to our success in 2020.

In closing, I would like to recognize AHG’s directors, management and personnel for their exceptional commitment to our growth and success. I’m very proud of our team’s achievements since our IPO, particularly while dealing with a challenging and ever-changing operating environment in 2020.

And to our shareholders, we thank you for your confidence and support.

Yours in health,

Michael Andlauer
Chief Executive Officer

ANDLAUER HEALTHCARE GROUP INC.

Management's Discussion and Analysis
of Financial Condition and Results of Operations
for the fiscal year ended December 31, 2020

February 24, 2021

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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 months and year ended December 31, 2020 should be read in conjunction with Andlauer Healthcare Group Inc.'s audited annual consolidated financial statements for the fiscal year ended December 31, 2020, along with the related notes thereto. This MD&A is presented as of February 24, 2021 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 "Q4 2020" are to the three months ended December 31, 2020; "Q4 2019" are to the three months ended December 31, 2019; "Q3 2020" are to the three months ended September 30, 2020; "Q2 2020" are to the three months ended June 30, 2020; "Q1 2020" are to the three months ended March 31, 2020; "Fiscal 2020" are to the year ended December 31, 2020; "Fiscal 2019" are to the year ended December 31, 2019 and "Fiscal 2018" are to the year ended December 31, 2018.

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 the timing, completion and anticipated benefits of the proposed acquisitions of the Skelton Companies (as defined below), 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 successfully integrate businesses and assets that we acquire;
- 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 February 24, 2021 for Fiscal 2020 (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.

In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. Forward-looking information is provided for the purpose of presenting information about management's current expectations and plans relating to the future and allowing investors and others to get a better understanding of our anticipated financial position, results of operations and operating environment. Readers are cautioned that such information may not be appropriate for other purposes.

Although we have attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other risk factors not presently known to us or that we presently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, investors should not place undue reliance on forward-looking information, which speaks only as of the date made. The forward-looking information contained in this MD&A represents our expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made), and are subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

All of the forward-looking information contained in this MD&A is expressly qualified by the foregoing cautionary statements.

Basis of Presentation

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

As described in additional detail in our financial statements for the years ended December 31, 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 Q4 2020, Fiscal 2020, Q4 2019, and Fiscal 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 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 "Employee Trust" and "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 (the "Revolving Credit Facility") in the aggregate principal amount of up to $75 million and a term facility (the "Term Facility") in the aggregate principal amount of up to $25 million. 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 and Q4 2020, approximately 0.330 million Subordinate Voting Shares were distributed to beneficiaries by the Employee Trust.

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.

We completed the tuck-in acquisitions of TDS Logistics Ltd. (“TDS”) and McAllister Courier Inc. (“MCI”) effective October 1, 2020, our first acquisitions as a public company. These two regionally focused temperature-controlled transportation businesses are expected to increase the reach of our services and expand our market presence in Ontario. Together, the two companies generate approximately $22 million of annual net revenue.

On February 23, 2021, we entered into definitive agreements to acquire 100% of Skelton Canada Inc. and 49% of Skelton USA Inc. for total aggregate consideration of approximately $114.7 million, subject to customary working capital adjustments. The agreement also includes an option for AHG to acquire the remaining 51% of Skelton USA Inc. The acquisitions are expected to close on or about March 1, 2021.

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, vaccines, 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, including 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, increasing healthcare spending, and an increasing number of healthcare products requiring unique logistics needs. Vaccines and biologics, for example, are generally temperature sensitive and require varying degrees of temperature conditions for transportation and storage.

Regulatory Environment

In order to maintain the safety, quality and efficacy of healthcare products, government regulations set out rules relating to, among other things, the packaging, warehousing, distribution, transportation and temperature monitoring of such products. The pace of introduction and complexity of such regulations has increased in recent years, including through the introduction of, and revisions to, many Health Canada guidelines, such as Health Canada's GUI-0069 - Guidelines for Environmental Control of Drugs During Storage and Transportation ("GUI-0069"), among others. Recognizing the ever-changing regulatory demands on the healthcare sector, we take a proactive approach to stay aligned with regulatory protocols, provide environments that are compliant with Good Manufacturing Practices and offer our clients' real-time monitoring and reporting. By outsourcing their logistics and transportation needs to AHG and our specialized services platform, our clients can focus on their core business.

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.

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.

Financial and Operational Highlights

We refer the reader to the section entitled "How We Assess the Performance of Our Business" of this MD&A for the definition of the items discussed below and, when applicable, to the section entitled "Reconciliation of Non-IFRS Measures" for quantitative reconciliations of net income and comprehensive income to EBITDA.

Q4 2020 Compared to Q4 2019

Select highlights include the following:

- Revenue increased 13.1% to $86.6 million, compared to $76.6 million in Q4 2019;
- Operating income increased 25.8% to $14.3 million, compared to $11.3 million in Q4 2019;
- Net income and comprehensive income increased 96.0% to $13.9 million, compared to $7.1 million in Q4 2019;
- EBITDA increased 23.9% to $22.0 million, compared to $17.7 million in Q4 2019;
- EBITDA Margin was 25.4%, compared to 23.1% in Q4 2019;
- On October 5, 2020, we announced the completion of two tuck-in acquisitions (TDS and MCI), for a combined purchase price of $15.9 million. – our first acquisitions as a public company. These acquisitions added approximately $5.5 million of revenue during Q4 2020; and
- We continued our business continuity incident response management in connection with the ongoing COVID-19 pandemic and successfully maintained service levels while proactively implementing measures across our operations to prioritize the health and safety of our personnel, clients, and suppliers.
- Subsequent to Q4 2020, on February 23, 2021, we announced that we have entered into definitive agreements to acquire 100% of Skelton Canada Inc. and 49% of Skelton USA Inc. (together the "Skelton Companies") for total aggregate consideration of approximately $114.7 million, subject to customary working capital adjustments. The agreement also includes an option for AHG to acquire the remaining 51% of Skelton USA Inc. We expect the acquisitions to be immediately accretive to cash flow and earnings per share. The Skelton Companies are specialized in the transportation

of refrigerated healthcare products The acquisitions are expected to close on or about March 1, 2021.

Fiscal 2020 Compared to Fiscal 2019

Select highlights include the following:

- Revenue increased 8.4% to $314.3 million, compared to $290.0 million in Fiscal 2019;
- Operating income increased 13.2% to $50.9 million, compared to $45.0 million in Fiscal 2019;
- Net income and comprehensive income increased 24.3% to $37.7 million, compared to $30.3 million in Fiscal 2019;
- EBITDA increased 11.8% to $78.9 million, compared to $70.6 million in Fiscal 2019, despite the absorption of approximately $2.8 million of incremental costs related to share-based compensation arrangements and the transition to a public company;
- EBITDA Margin was 25.1%, compared to 24.3% in Fiscal 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/Expense

Other income (expense) comprises income or expenses that do 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 and, in Fiscal 2019, included interest earned on certain amounts due from related parties prior to our IPO. Accordingly, interest income declined in Fiscal 2020 compared to Fiscal 2019.

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.

Previously unrecognized deferred tax assets have been recognized in respect of certain items in Fiscal 2020. We are confident that AHG, on a standalone basis, will have sufficient taxable profit available in the future against which we can use the benefits therefrom. Accordingly, we have recognized certain deductible temporary differences comprising costs incurred related to the acquisition of the AHG Entities which were charged directly to equity in connection with the Pre-IPO Reorganization as well as tax losses from Fiscal 2019 in our provision for income taxes in Fiscal 2020.

Non-IFRS Measures

EBITDA

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

We believe EBITDA is a useful measure to assess our financial performance because it provides a more relevant picture of operating results by excluding the effects of expenses that are not reflective of our underlying business performance.

EBITDA Margin

We define EBITDA Margin as EBITDA divided by revenue. EBITDA Margin represents a measure of our profitability expressed as a percentage of revenue.

We believe EBITDA Margin is a useful measure to assess our financial performance because it helps quantify our ability to convert revenues generated from clients into EBITDA.

Selected Consolidated Financial Information

The following table summarizes our results of operations for the periods indicated. The selected consolidated financial information for Q4 2020, Q4 2019, Fiscal 2020, Fiscal 2019 and Fiscal 2018 has been derived from our audited annual consolidated financial statements and the related notes thereto

($CAD 000s)	Three Months Ended December 31,		Year Ended 1 ecember 31,		
	2020	2019	2020	2019	2018
Revenue					
Logistics & Distribution	26,067	22,664	96,976	88,311	85,125
Packaging Solutions	3,924	4,892	19,380	21,307	21,305
Healthcare Logistics Segment	29,991	27,556	116,356	109,618	106,430
Ground Transportation	48,391	45,685	177,170	169,040	160,489
Air Freight Forwarding	6,091	5,236	22,482	19,656	19,332
Dedicated and Last Mile Delivery	10,979	4,828	29,795	16,689	13,899
Intersegment Revenue	(8,820)	(6,704)	(31,463)	(25,015)	(23,140)
Specialized Transportation Segment	56,641	49,045	197,984	180,370	170,580
Total revenue	**86,632**	**76,601**	**314,340**	**289,988**	**277,010**
Operating expenses					
Cost of transportation and services	38,542	32,621	131,392	121,405	116,780
Direct operating expense	18,775	18,586	75,374	74,792	74,190
Selling, general and administrative expenses	7,310	7,543	28,613	23,092	21,683
Depreciation & amortization	7,724	6,503	28,022	25,706	23,491
	72,351	65,253	263,401	244,995	236,144
Operating income	**14,281**	**11,348**	**50,939**	**44,993**	**40,866**
Interest expense	(1,030)	(980)	(4,595)	(3,503)	(3,048)
Interest income	39	276	285	1,004	879
Other (expense) income	(41)	(122)	(49)	(145)	19
Income tax (recovery) expense	620	(3,447)	(8,866)	(12,004)	(10,531)
Net income and comprehensive income	**13,869**	**7,075**	**37,714**	**30,345**	**28,185**
Net income and comprehensive income attributable to					
Shareholders of the Company	13,869	7,075	37,714	29,773	26,723
Non-controlling interests	-	-	-	572	1,462
Earnings per share – basic[(1)]	$0.37	$0.19	$1.00	$0.79	N/A
Earnings per share – diluted[(1)]	$0.36	$0.19	$0.98	$0.79	N/A
Select financial metrics					
EBITDA	21,964	17,729	78,912	70,554	64,376
EBITDA Margin	25.4%	23.1%	25.1%	24.3%	23.2%

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

Consolidated Balance Sheets

($CAD 000s)	As At December 31,		
	2020	2019	2018
Select financial position data			
Total assets	252,797	212,995	276,577
Total non-current liabilities	110,394	94,795	61,772

Consolidated Statements of Changes in Equity

($CAD 000s)	Three Months Ended December 31,		Year Ended December 31,		
	2020	2019	2020	2019	2018
Select financial data					
Distributions to related parties	-	82,016	-	112,016	25,850
Dividends	1,880	-	7,929	-	150

Reconciliation of Non-IFRS Measures

The following table provides a reconciliation of net income and comprehensive income for Q4 2020, Q4 2019, Fiscal 2020, Fiscal 2019 and Fiscal 2018:

($CAD 000s)	Three Months Ended December 31,		Year Ended December 31,		
	2020	2019	2020	2019	2018
Net income and comprehensive income	13,869	7,075	37,714	30,345	28,185
Income tax expense	(620)	3,447	8,866	12,004	10,531
Interest expense	1,030	980	4,595	3,503	3,048
Interest income	(39)	(276)	(285)	(1,004)	(879)
Depreciation & amortization	7,724	6,503	28,022	25,706	23,491
EBITDA	21,964	17,729	78,912	70,554	64,376

Results of Operations

Three months ended December 31, 2020 compared with 2019

The following section provides an overview of our financial performance for Q4 2020 and Q4 2019.

Revenue

Revenue for Q4 2020 increased by 13.1% to $86.6 million, compared with $76.6 million in Q4 2019. Our TDS and MCI acquisitions accounted for approximately $5.5 million of the $10.0 million increase with the remaining growth being attributed to organic growth as described below.

Healthcare Logistics Segment

Revenue in our healthcare logistics segment for Q4 2020 was $30.0 million, an increase of 8.8%, or approximately $2.4 million, compared with Q4 2019. The increase in revenue for this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for Q4 2020 was $26.1 million, an increase of 15.0%, or approximately $3.4 million, compared with Q4 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 Q4 2020 was $3.9 million, a decrease of 19.8%, or approximately $1.0 million, compared with Q4 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 Q4 2020 was $56.6 million, an increase of 15.5%, or approximately $7.6 million, compared with Q4 2019. Revenue growth in this segment was primarily driven by the factors set out below.

Air Freight Forwarding

Air freight forwarding revenue for Q4 2020 was $6.1 million, an increase of 16.3%, or approximately $0.9 million, compared with Q4 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 Q4 2020 as compared to Q4 2019, as customers continued to adjust to varying levels of national demand as provincial governments attempted to manage the COVID-19 pandemic.

Ground Transportation

Ground transportation revenue for Q4 2020 was $48.4 million, an increase of 5.9%, or approximately $2.7 million, compared with Q4 2019. The increase reflects incremental revenue from our MCI acquisition of approximately $1.0 million with the remainder attributed to higher volume from our existing client base, partially offset by lower fuel costs.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for Q4 2020 was $11.0 million, an increase of 127.4%, or approximately $6.2 million, compared with Q4 2019. This growth reflects approximately $4.5 million of incremental revenue from our TDS acquisition, with the remainder attributed to expanded routes for our existing clients.

Cost of Transportation and Services

Cost of transportation and services for Q4 2020 was $38.5 million, or 44.5% of revenue, compared with $32.6 million, or 42.6% of revenue, for Q4 2019. The higher cost of transportation and services and related operating ratio for Q4 2020 reflects the addition of TDS and MCI cost profiles. This increase was partially offset by 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 by approximately 3.5% in Q4 2020 as compared to Q4 2019.

Direct Operating Expenses

Direct operating expenses for Q4 2020 were $18.8 million, or 21.7% of revenue, compared with $18.6 million, or 24.3% of revenue, for Q4 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 Q4 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 payroll expense. A total of $0.6 million, or 0.7% of revenue, was recognized as a reduction of direct operating expenses for Q4 2020 as a result of assistance received from the CEWS program.

Selling, General and Administrative Expenses

SG&A expenses for Q4 2020 were $7.3 million, or 8.4% of revenue, compared with $7.5 million, or 9.8% of revenue, for Q4 2019. SG&A expenses included share-based compensation arrangements of approximately $0.8 million, or 0.9% of revenue in Q4 2020 and $1.4 million, or 1.8% of revenue in Q4 2019. These share-based compensation arrangements relate to the initial stock option grants to our directors and senior management team in connection with the IPO and deferred share unit grants made to our board of directors, which are intended to provide further alignment with shareholders. A further $0.3 million of cost, or 0.3% of revenue, is included in Q4 2020 SG&A expenses for incremental costs associated with being a public company as compared to $0.9 million, or 1.2% of revenue for Q4 2019.

Depreciation and Amortization

Depreciation and amortization for Q4 2020 was $7.7 million compared with $6.5 million for Q4 2019. The increase in depreciation and amortization for Q4 2020 represents an 18.8% 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 as well as depreciation and amortization related to our TDS and MCI acquisitions and new Brampton facility.

Other Income/Expense

Other expense for Q4 2020 was effectively $nil compared with other expense of effectively $0.1 for Q4 2019. These amounts are immaterial to our overall performance for these quarters.

Interest Income

Interest income for Q4 2020 was effectively $nil compared with $0.3 million for Q4 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 Q4 2020 was $1.0 million compared with $1.0 million for Q4 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 Q4 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 four-year term, and will incur interest expense on the Term Facility until maturity on March 1, 2025.

Income Tax Expense

Income tax (recovery) expense for Q4 2020 was ($0.6) million compared with $3.4 million for Q4 2019. Previously unrecognized deferred tax assets have been recognized in our Q4 2020 provision for income taxes. Management has determined that Andlauer Healthcare Group Inc., on a standalone basis, will have sufficient future taxable profit available against which the Company can use the benefits therefrom. The previously unrecognized deferred tax assets arose from deductible temporary differences from Fiscal 2019, comprising costs incurred by the Company related to the acquisition of the AHG Entities, which were charged directly to equity, and non-capital tax losses generated in Fiscal 2019.

Operating Income and Net Income and Comprehensive Income

Operating income for Q4 2020 was $14.3 million, an increase of $3.0 million, or 25.8%, compared with $11.3 million for Q4 2019.

Net income and comprehensive income for Q4 2020 increased by 96.0%, or $6.8 million, to $13.9 million, from $7.1 million for Q4 2019. The deferred income tax recovery of approximately $4.3 million contributed significantly to this increase; however, higher segment net income before eliminations for both our healthcare logistics and specialized transportation operating segments also contributed to the increased profitability on a consolidated basis.

EBITDA

EBITDA for Q4 2020 increased by 23.9%, to $22.0 million, from $17.7 million for Q4 2019. EBITDA increased over the year due to the factors discussed above and reflects the incremental contribution of our TDS and MCI tuck-in acquisitions.

EBITDA Margin

EBITDA Margin for Q4 2020 was 25.4% compared with 23.1% for Q4 2019. IPO related SG&A expenses and higher costs related to becoming a public company in Q4 2019 contributed to a lower EBITDA margin in Q4 2019, but the operating performance of our two operating segments continues to result in strong and stable EBITDA margins at the higher end of our historical range. Approximately 0.7% of the higher Q4 2020 EBITDA margin is attributed to the CEWS program. It is uncertain whether we will continue to qualify for the CEWS program.

Year ended December 31, 2020 compared with 2019

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

<u>Revenue</u>

Revenue for Fiscal 2020 increased by 8.4% to $314.3 million, compared with $290.0 million in Fiscal 2019. Although revenue within and between Q1 2020 and Q2 2020 was impacted by the COVID-19 pandemic, Fiscal 2020 revenue growth is within the range of our historical growth trend, as revenue growth (excluding the TDS and MCI acquisitions) was approximately 6.5%.

Healthcare Logistics Segment

Revenue in our healthcare logistics segment for Fiscal 2020 was $116.4 million, an increase of 6.1%, or approximately $6.7 million, compared with Fiscal 2019. Revenue growth in this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for Fiscal 2020 was $97.0 million, an increase of 9.8%, or approximately $8.7 million, compared with Fiscal 2019. A large new logistics and distribution client implementation commenced in July 2020, which contributed approximately $6.8 million to the Fiscal 2020 revenue growth. Our existing client base contributed approximately $1.9 million, or 2.0%, of Fiscal 2020 revenue growth.

Packaging Solutions

Packaging revenue for Fiscal 2020 was $19.4 million, a decrease of 9.0%, or approximately $1.9 million, compared with Fiscal 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, a 9.4% decline in Q3 2020 revenue and a 19.8% decline in Q4 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 Fiscal 2020 was $198.0 million, an increase of 9.8%, or approximately $17.6 million, compared with Fiscal 2019. Revenue growth in this segment was primarily driven by the factors set out below.

Air Freight Forwarding

Air freight forwarding revenue for Fiscal 2020 was $22.5 million, an increase of 14.4%, or approximately $2.8 million, compared with Fiscal 2019. Approximately half of this revenue increase was 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. 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 and most of Q4 2020 compared to the same periods in 2019. During this time, 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 as provincial governments allowed economies to re-open in response to declining COVID-19 cases.

Ground Transportation

Ground transportation revenue for Fiscal 2020 was $177.2 million, an increase of 4.8%, or approximately $8.1 million, compared with Fiscal 2019. The increase in revenue was primarily driven by increased Fiscal 2020 volume compared with Fiscal 2019, partially offset by lower fuel-related revenue compared with Fiscal 2019. Ground transportation revenue includes approximately $1.0 million of revenue from our MCI acquisition.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for Fiscal 2020 was $29.8 million, an increase of 78.5%, or approximately $13.1 million, compared with Fiscal 2019. The increase includes approximately $4.5 million of revenue from our TDS acquisition, with the remainder attributable to expanded routes for our existing clients which commenced in late Fiscal 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 Fiscal 2020 was $131.4 million, or 41.8% of revenue, compared with $121.4 million, or 41.9% of revenue, for Fiscal 2019. The slightly lower cost of transportation and services operating ratio reflects lower fuel costs in line with the decrease in ground transportation revenue related to fuel for Fiscal 2020 as compared to Fiscal 2019, but are otherwise in line with prior years with no significant fluctuations in costs versus revenue. The cost of transportation and services operating ratio for Fiscal 2020 also reflects the 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 and Q4 2020.

Direct Operating Expenses

Direct operating expenses for Fiscal 2020 were $75.4 million, or 24.0% of revenue, compared with $74.8 million, or 25.8% of revenue, for Fiscal 2019. 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 Fiscal 2020, we qualified for the CEWS program in connection with our Nova Pack operations. A total of $2.4 million, or 0.8% of revenue, has been recognized as a reduction of direct operating expenses for Fiscal 2020 as a result of support received from the CEWS program.

Selling, General and Administrative Expenses

SG&A expenses for Fiscal 2020 were $28.6 million, or 9.1% of revenue, compared with $23.1 million, or 8.0% of revenue, for Fiscal 2019. SG&A expenses for Fiscal 2020 include a $1.7 million increase in share-based compensation arrangements compared to Fiscal 2019, representing 0.5% of revenue. These share-based compensation arrangements relate to the initial stock option grants to our directors and senior management team in connection with the IPO and deferred share unit grants made to our board of directors, which are intended to provide further alignment with shareholders. A further $1.2 million of cost, or 0.4% of revenue, is included in Fiscal 2020 SG&A expenses for incremental costs associated with being a public company. We believe approximately $0.4 million of the public company SG&A expenses reflected in Fiscal 2020 were one-time in nature.

Depreciation and Amortization

Depreciation and amortization for Fiscal 2020 was $28.0 million compared with $25.7 million for Fiscal 2019. The increase of $2.3 million for Fiscal 2020 represents an 8.9% 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. Depreciation and amortization has remained constant at 8.9% of revenue for both Fiscal 2020 and Fiscal 2019.

Other Income/Expense

Other expense for Fiscal 2020 was effectively $nil compared with $0.1 million for Fiscal 2019. These amounts are immaterial to our overall performance for these years.

Interest Income

Interest income for Fiscal 2020 was $0.3 million compared with $1.0 million for Fiscal 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 Fiscal 2020 was $4.6 million compared with $3.5 million for Fiscal 2019. Interest expense related to leased facilities and equipment comprises the significant majority of interest expense; however, $0.7 million of interest expense was incurred in Fiscal 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 four-year term, and will incur interest expense on the Term Facility until maturity on March 1, 2025.

Income Tax Expense

Income tax expense for Fiscal 2020 was $8.9 million compared with $12.0 million for Fiscal 2019. Previously unrecognized deferred tax assets have been recognized in our Fiscal 2020 provision for income taxes. Management has determined that Andlauer Healthcare Group Inc., on a standalone basis, will have sufficient future taxable profit available against which the Company can use the benefits therefrom. The previously unrecognized deferred tax assets arose from deductible temporary differences from Fiscal 2019 comprising costs incurred by the Company related to the acquisition of the AHG Entities, which were charged directly to equity, and non-capital tax losses generated in Fiscal 2019. Our effective tax rate for Fiscal 2019 approximates the expected statutory rate after adjusting for amortization of share-based options, which are not deductible for tax purposes.

Operating Income and Net Income and Comprehensive Income

Operating income for Fiscal 2020 was $50.9 million, an increase of $5.9 million, or 13.2%, compared with $45.0 million for Fiscal 2019.

Net income and comprehensive income for Fiscal 2020 increased by 24.3%, or $7.4 million, to $37.7 million, from $30.3 million for Fiscal 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 Fiscal 2020 increased by 11.8%, to $78.9 million, from $70.6 million for Fiscal 2019. The increase in EBITDA was due to the factors discussed above and also reflects the absorption of approximately $2.8 million of incremental costs related to share-based compensation arrangements and other public company costs not incurred in Fiscal 2019.

EBITDA Margin

EBITDA Margin for Fiscal 2020 was 25.1%, broadly in line with EBITDA Margin of 24.3% for Fiscal 2019 and 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 Fiscal 2020 as compared to Fiscal 2019; however, these improvements were offset by increases in SG&A costs attributed to incremental public company costs. Approximately 0.8% of the higher Q4 2020 EBITDA Margin is attributed to the CEWS program. It is uncertain whether we will continue to qualify for the CEWS program.

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	Q4-20	Q3-20	Q2-20	Q1-20	Q4-19	Q3-19	Q2-19	Q1-19
Total revenue	86,632	75,805	70,253	81,650	76,601	70,844	71,147	71,396
Operating income	14,281	13,165	11,089	12,404	11,348	11,319	11,404	10,922
Net income and comprehensive income	13,869	8,596	7,067	8,182	7,075	7,763	7,968	7,539
Net income and comprehensive income attributed to shareholders of the Company	13,869	8,596	7,067	8,182	7,075	7,763	7,654	7,281
EBITDA	21,964	20,190	17,959	18,799	17,729	17,872	17,745	17,208
Earnings per share – basic(1)	$ 0.37	$ 0.23	$ 0.19	$ 0.22	$ 0.19	N/A	N/A	N/A
Earnings per share - diluted(1)	$ 0.36	$ 0.22	$ 0.18	$ 0.22	$ 0.19	N/A	N/A	N/A

(1) Earnings per share data is not presented for 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 Fiscal 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 and Q4 2020 returned to more normalized pre-pandemic levels with year-over-year increases averaging in the mid-single digit percentages.

Revenue for Q4 2020 includes approximately $5.5 million related to our tuck-in acquisitions of TDS and MCI effective October 1, 2020.

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.

Our acquisitions of TDS and MCI, our first as a public company, for a purchase price of approximately $15.9 million in cash were funded from existing cash flow from operations.

Working Capital

The following table presents our working capital position as at December 31, 2020 and 2019:

($CAD 000s)	**As At December 31,**	
	2020	**2019**
Cash and cash equivalents	30,148	18,712
Accounts receivable	57,867	51,060
Inventories	1,228	1,071
Prepaid expenses and other	2,830	2,307
Due from related parties	381	239
Due from employee trust	-	13,875
Revolving credit facility	-	(3,929)
Accounts payable and accrued liabilities	(25,365)	(24,942)
Current portion of lease liabilities	(21,197)	(19,129)
Income taxes payable	(1,514)	(8,695)
Working Capital	44,378	30,569

As at December 31, 2020, we had $44.4 million of working capital compared to $30.6 million of working capital as at December 31, 2019. The $13.8 million increase in working capital is primarily attributable to profitable growth in our business, partially offset by the distribution of dividends to shareholders of $7.9 million.

Credit Facilities

We entered into the Credit Facilities upon closing of our IPO, comprised of the Revolving Credit Facility and the Term Facility. On February 19, 2021, in connection with our proposed acquisitions of Skelton Canada Inc. and Skelton USA Inc., we amended our Credit Facilities to increase the amounts available to be drawn under the Revolving Credit Facility and the Term Facility each by $25 million. The amended Credit Facilities comprise a Revolving Credit Facility in the aggregate principal amount of up to $100 million and a Term Facility in the aggregate principal amount of up to $50 million. The remaining terms and conditions of the Credit Facilities remain unchanged, except that they will mature and be due and payable on March 1, 2025. As at December 31, 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 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 December 31, 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 Q4 2020 and Fiscal 2020 were $0.9 million and $5.0 million, respectively (Q4 2019 and Fiscal 2019 – $3.3 million and $5.9 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 Q4 2020 and Fiscal 2020 were $0.4 million and $1.4 million, respectively (Q4 2019 and Fiscal 2019 – $0.3 million and $1.5 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 Q4 2020 and Fiscal 2020 were $0.5 million and $3.6 million, respectively (Q4 2019 and Fiscal 2019 – $3.0 million and $4.4 million, 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 Fiscal 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 months and year ended December 31, 2020 and 2019:

($CAD 000s)	Three Months Ended December 31,		Year Ended December 31,	
	2020	2019	2020	2019
Cash flows				
Cash from Operating Activities	5,516	26,581	51,003	61,001
Cash used in Investing Activities	(16,131)	(3,397)	(20,371)	(6,165)
Cash used in Financing Activities	(7,782)	(40,665)	(19,196)	(89,781)
Net change in cash	(18,397)	(17,481)	11,436	(34,945)
Select cash flow data				
Capital expenditures	(878)	(3,286)	(4,966)	(5,935)
Lease payments	(6,557)	(5,842)	(24,666)	(22,293)

Cash Flow Generated From Operating Activities

Cash flows generated from operating activities for Q4 2020 and Fiscal 2020 totaled $5.5 million and $51.0 million, respectively (Q4 2019 and Fiscal 2019 - $26.6 million and $61.0 million, respectively). The change in cash flows generated from operating activities relates principally to normal fluctuations in trade accounts receivable and trade accounts payable and includes a $7 million reduction in income taxes payable at December 31, 2020 due to the timing of taxes payable for certain subsidiaries.

Cash Flow Used In Investing Activities

Cash flows used in investing activities for Q4 2020 and Fiscal 2020 totaled $16.1 million and $20.4 million, respectively (Q4 2019 and Fiscal 2019 - $3.4 million and $6.2 million, respectively). Cash flows were used to acquire TDS and MCI ($15.9 million in aggregate) as well as 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 – which is reflected in cash flow from operating activities, for Q4 2020 and Fiscal 2020 was $6.6 million and $24.7 million, respectively (Q4 2019 and Fiscal 2019 – $5.9 million and $22.3 million, respectively). Further, we paid dividends in Q4 2020 and Fiscal 2020 of $1.9 million and $7.9 million, respectively (distributions to related parties in Q4 2019 and Fiscal 2019 – $82 million and $112 million, respectively) and fully repaid the balance on our Revolving Credit Facility in Q1 2020 ($3.9 million).

In Q2 2020, the Employee Trust Loan was repaid in full by the Employee Trust, resulting in positive cash flow of $13.9 million, offsetting the above uses during Fiscal 2020.

Contractual Obligations

As at December 31, 2020, we had the following contractual commitments:

- Outstanding letters of guarantee in the amount of $0.2 million (December 31, 2019 – $0.2 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 first quarter of 2021, for total lease commitments of $9.2 million (December 31, 2019 – $3.0 million).

Credit facilities

As at December 31, 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 March 1, 2025.

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 Q4 2020, facility lease liabilities are calculated using our incremental borrowing rate of 2.99% (Q4 2019 – 3.75%). Equipment lease terms range from one to five years. For Q4 2020, equipment lease liabilities are calculated using our incremental borrowing rate of 3.11% (Q4 2019 – 4.07%) for our specialized transportation segment and 2.70% (Q4 2019 – 3.95%) for our healthcare logistics segment.

The following table summarizes our contractual obligations as at December 31, 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	117,904	24,720	71,506	21,678
Lease commitments	9,211	1,535	7,676	-
Other obligations	28,857	26,879	1,978	-
Total contractual obligations	180,972	53,134	106,160	21,678

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 consolidated financial statements for the years ended December 31, 2020 and 2019.

During Fiscal 2020 and Fiscal 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 28,500 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 Fiscal 2019, AMG provided key management personnel to us for which it received management fees. We paid management fees of $670 for Fiscal 2019 to AMG in connection with compensation for key management personnel. We did not purchase key management personnel services from AMG in Fiscal 2020, and do not intend to purchase such services from AMG going forward. All employees involved in the AHG business previously employed by AMG became our employees effective at the time of the IPO.

In Fiscal 2019, we recovered facility lease costs from AMG of $320. Recovery of such lease costs has discontinued in Fiscal 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 Fiscal 2020, we charged AMG $12 (Fiscal 2019 - $12) 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 Fiscal 2020, we expensed $1,875 (Fiscal 2019 - $1,484) for leases of logistics and transportation equipment; and $1,447 (Fiscal 2019 - $605) for leases of facilities from APLI. The specific facilities that we lease from APLI are located at: 881 Bell Blvd. W, Belleville, Ontario; 18 Sandbourne Dr., Pontypool, Ontario (commenced in January 2021); 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 Fiscal 2020 we charged APLI $35 (Fiscal 2019 - $18) for recovery of shared services costs.

9143-5271 Québec Inc.

9143-5271 Québec Inc. is a subsidiary of AMG and leases a facility located at 655 Desserte E. Hwy 13, Laval, Québec to AHG. We also lease facilities from arm's length providers. During Fiscal 2020, we expensed $1,468 (Fiscal 2019 - $1,149) for this building. We expect to continue leasing this property.

For Fiscal 2020, we charged 9143-5271 Québec Inc. $32 (Fiscal 2019 - $30) for recovery of shared services costs.

Ready Staffing Solutions Inc.

Ready Staffing Solutions Inc. ("RSS"), a company owned by Mr. Andlauer's spouse, provides us with temporary agency employee services – providing hourly dock labour for our handling operations, principally in the Greater Toronto Area (the "GTA"). We also purchase temporary agency employee services from arm's length providers. During Fiscal 2020, we expensed $4,166 (Fiscal 2019 - $4,153) 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 Fiscal 2020, we expensed $167 (Fiscal 2019 - $253) for deliveries subcontracted to MCS. We expect to continue subcontracting deliveries to MCS. Similarly, in Fiscal 2020 we invoiced MCS for $27 (Fiscal 2019 - $7) for transportation services provided to MCS. For Fiscal 2020, we charged MCS $12 (Fiscal 2019 - $12) for recovery of shared services costs.

McAllister Courier Inc.

MCI was a subsidiary owned 100% by AMG until October 1, 2020, at which time MCI became a wholly-owned subsidiary of the Company. Prior to this time, MCI provided transportation services to us, extending our reach for shipments where we did not have our own facilities or equipment. During the first three quarters of Fiscal 2020, we expensed $682 (Fiscal 2019 - $972) for deliveries subcontracted to MCI and recovered $21 (Fiscal 2019 - $nil) for the use of certain of our equipment by MCI.

TDS Logistics Ltd.

TDS was a subsidiary owned 100% by AMG until October 1, 2020, at which time TDS became a wholly-owned subsidiary of the Company. Prior to this time, TDS subcontracted deliveries to us, to take advantage of efficiencies gained through coincidence of delivery. During the first three quarters of Fiscal 2020, we charged $534 (Fiscal 2019 - $721) for deliveries subcontracted to us by TDS. During the first three quarters of Fiscal 2020, we also charged TDS $189 (Fiscal 2019 - $252) for shared services and recovered $273 (Fiscal 2019 - $364) in equipment rental charges. In Fiscal 2019, TDS began to provide transportation services to us, offering us additional capacity where we could subcontract deliveries to take advantage of coincidences of delivery. During the first three quarters of Fiscal 2020, TDS charged us $469 (Fiscal 2019 - $558) for deliveries subcontracted to it by AHG.

During Fiscal 2019 we provided TDS with leased facility space, which is a cost recovery. During the first three quarters of Fiscal 2020 we recovered $492 (Fiscal 2019 - $656) 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 $813 in services for Fiscal 2020 (Fiscal 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 $25 in services during Fiscal 2020 (Fiscal 2019 - $1). We expect to continue subcontracting deliveries to MEL.

Bourbon Street Enterprises Inc.

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

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

D.C. Racking & Maintenance Inc. ("DCR") and Logiserv Inc. ("Logiserv") are also owned by Cameron Joyce. 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 Fiscal 2020, we expensed $64 (Fiscal 2019 - $46) for warehouse racking installation, maintenance and repair services provided by DCR and Logiserv, and purchased $nil (Fiscal 2019 - $335) in warehouse racking and racking components from Logiserv. We expect to continue to purchase warehouse racking installation, maintenance and repair services and warehouse racking and racking components from DCR and Logiserv.

C-GHBS Inc.

C-GHBS Inc. ("C-GHBS") is a subsidiary of AMG and provides air travel services to us. We also purchase air travel services from arm's length providers. During Fiscal 2020, we purchased $174 (Fiscal 2019 - $329) from C-GHBS. We expect to continue to purchase air travel services from C-GHBS.

Bulldog Hockey Inc.

Bulldog Hockey Inc. ("BHI") is a subsidiary of AMG and provides sports and entertainment services to us. During Fiscal 2020, we purchased $nil (Fiscal 2019 - $25) of sports and entertainment services from BHI on terms which we believe to be arm's length. We also purchase sports and entertainment services from arm's length providers. We expect to continue to purchase sports and entertainment services from BHI.

Key Management Personnel

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

During Fiscal 2020, we recorded $5,296 (Fiscal 2019 – $3,691) related to key management personnel salaries and benefits, share-based compensation, and director fees.

Due from/to related parties

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

($CAD 000s)	As At December 31,	
	2020	2019
Accounts receivable		
Andlauer Management Group Inc.	-	60
AWA Transportation Services	1	-
TDS Logistics Ltd.	-	380
Andlauer Properties and Leasing Inc.	20	-
9143-5271 Quebec Inc.	-	1
1708998 Ontario Limited (Medical Courier Services)	3	-
Trade receivables due from related parties	24	441
Due from related parties		
Andlauer Management Group Inc.	10	53
Andlauer Properties and Leasing Inc.	371	186
	381	239
Total due from related parties	**405**	**680**
Accounts payable and accrued liabilities		
Ready Staffing Solutions Inc.	23	397
McAllister Courier Inc.	-	71
TDS Logistics Ltd.	-	100
Andlauer Properties and Leasing Inc.	18	1,196
Andlauer Management Group Inc.	24	-
Med Express Ltd.	-	1
D.C. Racking and Maintenance Inc.	-	1
Logiserv Inc.	21	69
Bulldog Hockey Inc.	-	28
C-GHBS Inc.	-	153
Trade payables due to related parties	86	2,016
Due to related parties		
M. Andlauer	-	161
TDS Logistics Ltd.	-	174
	-	335
Total due to related parties	**86**	**2,351**

Critical Accounting Judgements and Estimates

The preparation of our audited annual consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities, the disclosures about contingent assets and liabilities, and the reported amounts of revenues and expenses and apply equally to both our healthcare logistics segment and our specialized transportation segment. Such estimates include the expected credit losses on accounts receivable, the useful life of long-lived assets, our incremental borrowing rate, valuation of property, plant and equipment, valuation of goodwill and intangible assets, the measurement of identified assets and liabilities acquired in business combinations, share-based compensation arrangements, the provision for income taxes and other provisions and contingencies. These estimates and assumptions are based on management's best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. Actual results could differ from these estimates. Changes in those estimates and assumptions resulting from changes in the economic environment will be reflected in the consolidated financial statements of future periods. Information about critical judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include the following:

- Establishing the fair value of assets and liabilities, intangible assets and goodwill related to business combinations;
- 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 audited annual consolidated financial statements for the fiscal year ended December 31, 2020.

During Fiscal 2020 we adopted IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, in connection with government assistance received from the CEWS program. Government assistance received from the CEWS program has been recorded against payroll expense.

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 audited annual consolidated financial statements for the fiscal year ended December 31, 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.

While to date our business has not been materially and adversely affected by COVID-19, the extent to which COVID-19 (including variant strains and mutations) and its effect on the economy will impact our business in the future remains 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 regularly as needed 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, CIBC, and Bank of Nova Scotia, comprised of a Revolving Credit Facility in the aggregate principal amount of up to $100 million and a Term Facility in the aggregate principal amount of up to $50 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 December 31, 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 December 31, 2020, the term facility comprises bankers' acceptances drawn at an interest rate of 1.9%. During the year, 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 February 24, 2021, there were 12,502,805 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 1,643,750 options, each of which can be exercised or settled for one Subordinate Voting Share and 22,816 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 28,500 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 Q4 2020 dividend, in the amount of $0.05 per Share, was paid on January 15, 2021 for the period beginning on October 1, 2020 and ending on December 31, 2020, to shareholders of record as at December 31, 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 and effectiveness of DC&P and the design and effectiveness of ICFR.

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

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

Disclosure controls and procedures

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

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

Internal controls over financial reporting

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

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

Changes in internal controls over financial reporting

No changes were made to our ICFR during Fiscal 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.

Consolidated Financial Statements of

ANDLAUER HEALTHCARE GROUP INC.

For the years ended December 31, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Andlauer Healthcare Group Inc.

Opinion

We have audited the consolidated financial statements of Andlauer Healthcare Group Inc. (the "Entity"), which comprise:

- the consolidated balance sheets as at December 31, 2020 and December 31, 2019
- the consolidated statements of income and comprehensive income for the years ended December 31, 2020 and December 31, 2019
- the consolidated statements of changes in equity for the years ended December 31, 2020 and December 31, 2019
- the consolidated statements of cash flow for the years ended December 31, 2020 and December 31, 2019
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2020 and December 31, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of revenue recognition in the Healthcare Logistics Segment

Description of the matter

We draw attention to Note 3(b) *Revenue, Healthcare Logistics* to the financial statements. The Entity's healthcare logistics segment generates revenue from providing supply chain services for its customers, including logistics and distribution services and packaging solutions. The total revenues for the healthcare logistics segment is $117 million, which represents 37% of total revenues. The Entity's contracts with customers typically include a single performance obligation. However, in some cases, the Entity's contracts with customers have other performance obligations related to managing transportation and other customer services which are included in the logistics and distribution of products. These services are typically priced at their stand-alone selling prices and are recognized over time as the customer simultaneously receives and consumes the benefits of the Entity's services. The accounting for a contract or contracts with a customer that contain multiple performance obligations requires the Entity to allocate the contractual transaction price to the identified distinct performance obligations. The allocation of the transaction price requires management to determine the standalone selling price ("SSP") for each distinct performance obligation.

Why the matter is a key audit matter

We identified the evaluation of revenue recognition for contracts that contain multiple performance obligations in the healthcare logistics segment as a key audit matter. This matter represented an area of higher risk of material misstatement given the complexity of the various terms in each contract and the need to identify the SSP for each distinct performance obligation. In addition, there was a need for heightened auditor attention in evaluating the amount of revenue recognized.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- We selected a statistical sample from all healthcare logistics revenue transactions in the general ledger. For each sample selected, we compared the amount of revenue recognized to the source documentation and then examined the subsequent cash receipt of each sample.
- For samples selected related to contracts that include more than one performance obligation, we obtained the Entity's master contract summary and tested the stand-

alone selling price used to invoice the customer to evaluate the revenue recognized. We also performed testing over the master contract summary by examining the customer contracts to assess the appropriateness of the SSP used to bill customers for specific performance obligations.

Emphasis of Matter — Basis of Presentation

We draw attention to Note 2 to the financial statements, which describes the basis of presentation, including the approach to and the purpose for preparing the financial statements including the comparative information.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work that we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity’s financial reporting process.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is John J. Pryke.

Hamilton, Canada
February 24, 2021

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

Assets	**Note**	**December 31, 2020**	**December 31, 2019**
Current assets			
Cash and cash equivalents		$ 30,148	$ 18,712
Accounts receivable	6	57,867	51,060
Inventories	7	1,228	1,071
Prepaid expenses and other		2,830	2,307
Due from related parties	21	381	239
Due from employee trust	2	-	13,875
		92,454	87,264
Non-current assets			
Long-term deposits		810	938
Property, plant and equipment	8	118,915	103,326
Goodwill and intangible assets	9	34,479	21,421
Deferred income taxes	17	6,139	46
Total Assets		**$ 252,797**	**$ 212,995**
Liabilities and Equity			
Current liabilities			
Revolving credit facility	11	$ -	$ 3,929
Accounts payable and accrued liabilities	10	25,365	24,942
Current portion of lease liabilities	18	21,197	19,129
Income taxes payable		1,514	8,695
		48,076	56,695
Long-term liabilities			
Lease liabilities	18	83,749	69,584
Deferred income taxes	17	1,978	321
Due to related parties	21	-	335
Term facility	11	24,667	24,555
Total Liabilities		**158,470**	**151,490**
Equity			
Common share capital	13	549,662	549,679
Contributed surplus	15	4,448	1,394
Merger reserve	2	(488,916)	(488,916)
Retained earnings (deficit)		29,133	(652)
		94,327	61,505
Commitments and contingencies	20		
Subsequent event	24		
Total Liabilities and Equity		**$ 252,797**	**$ 212,995**

See accompanying notes to the 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 years ended December 31, 2020 and 2019

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

	Note	December 31, 2020	December 31, 2019
Revenue	16	**$ 314,340**	**$ 289,988**
Operating Expenses			
Cost of transportation and services		131,392	121,405
Direct operating expenses		75,374	74,792
Selling, general and administrative expenses		28,613	23,092
Depreciation and amortization		28,022	25,706
		263,401	244,995
Operating Income		**50,939**	**44,993**
Interest expense	19	(4,595)	(3,503)
Interest income		285	1,004
Other expenses		(49)	(145)
Income before income taxes		**46,580**	**42,349**
Current income tax expense	17	15,137	11,641
Deferred income tax (recovery) expense	17	(6,271)	363
		8,866	12,004
Net income and comprehensive income		**37,714**	**30,345**
Net income attributable to:			
Shareholders of the Company		37,714	29,773
Non-controlling interests	2	-	572
		$ 37,714	**$ 30,345**
Net earnings per share attributable to the Shareholders of the Company:			
Basic earnings per share	14	**$ 1.00**	**$ 0.79**
Diluted earnings per share	14	**$ 0.98**	**$ 0.79**

See accompanying notes to the consolidated financial statements.

Andlauer Healthcare Group Inc.
Consolidated Statements of Changes in Equity
For the years ended December 31, 2020 and 2019
(In thousands of Canadian dollars, except shares, share price and earnings per share)

	Attributable to Common Shareholders of the Company							
	Number of shares (thousands) (note 13)	**Share capital** (note 13)	**Merger reserve** (note 2)	**Contributed surplus** (note 15)	**Retained earnings (deficit)** (note 13)	**Total net parent investment** (note 2)	**Non-controlling interests** (note 2)	**Total equity**
Balance at December 31, 2018	-	$ -	$ -	$ -	$ -	$ 163,811	$ 5,917	$ 169,728
Net income and comprehensive income for the period	-	-	-	-	-	30,425	572	30,997
Distributions and dividends	-	-	-	-	-	(112,016)	-	(112,016)
Adjustment on acquisition of NCI	-	-	-	-	-	6,489	(6,489)	-
Balance at December 10, 2019	-	-	-	-	-	88,709	-	88,709
Net loss and comprehensive loss for the period December 11-31, 2019	-	-	-	-	(652)	-	-	(652)
Shares issued in connection with the acquisition of the AHG Entities	26,100	391,500	-	-	-	-	-	391,500
Acquisition of the AHG Entities	-	-	(488,916)	-	-	(88,709)	-	(577,625)
Shares issued in connection with the initial public offering	11,500	172,500	-	-	-	-	-	172,500
Transaction costs	-	(14,321)	-	-	-	-	-	(14,321)
Share-based compensation	-	-	-	1,394	-	-	-	1,394
Balance at December 31, 2019	**37,600**	**$ 549,679**	**$ (488,916)**	**$ 1,394**	**$ (652)**	**$ -**	**$ -**	**$ 61,505**
Net income and comprehensive income for the year	-	-	-	-	37,714	-	-	37,714
Share-based compensation	3	(17)	-	3,054	-	-	-	3,037
Dividends	-	-	-	-	(7,929)	-	-	(7,929)
Balance at December 31, 2020	**37,603**	**$ 549,662**	**$ (488,916)**	**$ 4,448**	**$ 29,133**	**$ -**	**$ -**	**$ 94,327**

See accompanying notes to the consolidated financial statements.

Andlauer Healthcare Group Inc.

Consolidated Statements of Cash Flow

For the years ended December 31, 2020 and 2019

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

	Note	December 31, 2020	December 31, 2019
Operating activities			
Net income for the year		$ 37,714	$ 30,345
Changes not involving cash:			
Depreciation and amortization		28,022	25,706
Adjustment to capitalized financing costs	11	112	-
Share-based compensation	15	3,037	1,394
Deferred income tax (recovery) expense	17	(6,271)	363
Loss on disposal of property, plant and equipment		18	107
Derecognition of right-of-use assets and liabilities	18	(34)	-
		62,598	57,915
Changes in non-cash operating working capital:			
Accounts receivable		(3,040)	(2,630)
Inventories		(157)	295
Accounts payable and accrued liabilities		(948)	(2,154)
Income taxes payable		(7,181)	8,654
Net change in other operating working capital balances		(269)	(1,079)
Cash flows from operating activities		**51,003**	**61,001**
Financing activities			
Distributions to related parties	2	-	(112,016)
Dividends	13	(7,929)	-
Principal repayments on lease liabilities	18	(20,736)	(19,161)
Net change in related party balances		(477)	54,733
Loan to employee trust	2	13,875	(13,875)
Proceeds from revolving credit facility	11	-	25,000
Proceeds from term facility	11	-	25,000
Repayment of revolving credit facility	11	(3,929)	(21,071)
Net financing costs on credit facilities	11	-	(445)
Proceeds from issuance of share capital	13	-	172,500
Transaction costs recorded in share capital	13	-	(14,321)
Repayment of promissory note	2	-	(186,125)
Cash flows used in financing activities		**(19,196)**	**(89,781)**
Investing activities			
Purchase of property, plant and equipment		(4,966)	(5,935)
Proceeds on disposal of property, plant and equipment		1	-
Purchase of intangible assets	9	(473)	(230)
Business combinations, net of cash acquired	5	(14,933)	-
Cash flows used in investing activities		**(20,371)**	**(6,165)**
Net increase (decrease) in cash and cash equivalents		11,436	(34,945)
Cash and cash equivalents, beginning of year		18,712	53,657
Cash and cash equivalents, end of year		**$ 30,148**	**$ 18,712**

See accompanying notes to the 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. Transaction costs of $15,273 were incurred in connection with the initial public offering, of which $14,321 have been offset against the proceeds of the subordinate voting shares, and $952 were expensed in 2019.

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. Between September 25 and December 23, 2020, AMG transferred an aggregate of 46,500 of its remaining subordinate voting shares to select independent owner-operators engaged by AHG. As of the date hereof, AMG holds all of the issued and outstanding multiple voting shares and 28,500 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies described herein.

b) Basis of measurement

These consolidated financial statements were prepared on a going concern basis under the historical cost method except for share based compensation and business combinations, which were recorded at fair value. Significant accounting policies are presented in note 3 to these consolidated financial statements and have been consistently applied in each of the periods presented. These consolidated financial statements were authorized for issue by the Board of Directors effective February 24, 2021.

These financial statements comprise the consolidated financial results of AHG and Associated Logistics Solutions Inc., Credo Canada Systems Inc., 2186940 Ontario Inc. and their respective subsidiaries (collectively, the “AHG Entities”) as at and for the years ended December 31, 2020 and 2019, and reflect the combined financial results of the AHG Entities for the period from January 1 to December 10, 2019, prior to the date of the initial public offering (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 in exchange for 25.1 million multiple voting shares valued at $376,500, 1.0 million subordinate voting shares valued at $15,000 and a promissory note for $186,125 which was settled with the proceeds of the initial public offering and proceeds from the credit facilities (note 11).

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 resulted 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 statement of changes in equity for the period from January 1, 2019 to December 10, 2019 reflects the combined equity and net income and comprehensive income of the AHG Entities prior to AHG's acquisition of the AHG Entities. Accordingly, it is not meaningful to show share capital or provide an analysis of reserves. Amounts which reflect the carrying value of investments in the combined entities are disclosed as "Total net parent investment", while the carrying value of net assets attributable to shareholders other than the Company are presented as "Non-controlling interests" ("NCI").

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.

Prior to AHG's acquisition of the AHG Entities, the AHG Entities paid distributions and dividends to related parties of $112,016, which includes income tax of $9,379 charged to net parent investment.

(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. Following distributions of 329,550 subordinate voting shares to beneficiaries, the employee trust continues to hold 87,450 subordinate voting shares for the benefit of executive officers and employees of the Company.

2. Basis of presentation (continued)

c) Basis of combination

(i) Business combinations

The Company measures goodwill as the fair value of the consideration transferred including the fair value of liabilities resulting from contingent consideration arrangements, less the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured at fair value as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in income or loss.

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

(ii) Subsidiaries

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

The Company's wholly-owned subsidiaries include:

Entity	Incorporation Jurisdiction
2040637 Ontario Inc.	Ontario
2186940 Ontario Inc.	Ontario
2721275 Ontario Limited	Ontario
Accuristix Healthcare Logistics Inc.	Ontario
Accuristix Inc.	Ontario
Accuristix	Ontario
Associated Logistics Solutions Inc.	Ontario
ATS Andlauer Transportation Services GP Inc.	Canada
ATS Andlauer Transportation Services LP	Manitoba
Concord Supply Chain Solutions Inc.[1]	Delaware
Credo Systems Canada Inc.	Ontario
McAllister Courier Inc.[2]	Ontario
MEDDS Winnipeg – A Medical Delivery Service Corporation	Manitoba
MEDDS Canada – A Medical Delivery Service Corporation[1]	Canada
Nova Pack Ltd.	Ontario
TDS Logistics Ltd.[2]	Ontario

1 Entity has been dormant throughout the entire reporting period.
2 Acquired by ATS Andlauer Transportation Services LP on October 1, 2020. See note 5.

(iii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

2. Basis of presentation (continued)

d) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

e) Judgments and estimates

Preparing the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these consolidated financial statements, significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2019. Information about significant judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 5 – Establishing the fair value of assets and liabilities, intangible assets and goodwill related to business combinations;
- Note 6 – Determining the expected credit losses related to trade accounts receivable;
- Note 8 – Estimating the useful life of the Company's property, plant and equipment and determining estimates and assumptions related to impairment tests for long-lived assets;
- Note 9 – Estimating the useful life of the Company's intangible assets and determining estimates and assumptions related to impairment tests for intangibles and goodwill;
- Note 15 – Determining the valuation of share-based compensation arrangements;
- Note 17 – Determining estimates and assumptions in measuring deferred tax assets and liabilities;
- Note 18 – Estimating the Company's incremental borrowing rate in connection with measuring lease liabilities; and
- Note 20 – Recognition and measurement of provisions and contingencies.

3. Significant accounting policies

Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currencies of each entity at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate in effect at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated at the rate in effect on the transaction date. Income and expense items denominated in foreign currency are translated at the date of the transactions. Gains and losses are included in income or loss.

Revenue

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those products or services. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The following is a description of the Company's performance obligations for the transportation and logistics reportable segments.

3. Significant accounting policies (continued)

Revenue (continued)

a) Specialized Transportation

The Company's transportation segment generates revenue from providing specialized ground transportation, air freight forwarding and dedicated and last mile transportation services for its customers. Certain additional services may be provided to customers as part of their transportation contracts, such as temperature control and other incidental services. The transaction price is based on the consideration specified in the customer's contract. A contract exists when a customer under a transportation contract submits a shipment document for the transport of goods from origin to destination. The performance obligations within each contract are satisfied as the shipments move from origin to destination. 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 days less than one week. Generally, customers are billed upon shipment of the freight, and remit payment according to approved payment terms.

b) Healthcare Logistics

The Company's healthcare logistics segment generates revenue from providing supply chain services for its customers, including logistics and distribution services and packaging solutions. The Company's contracts typically include a single performance obligation that is satisfied over time as customers simultaneously receive and consume the benefits of the Company's services. For this performance obligation, the Company recognizes revenue at the invoiced amount, which is billed on a fixed price per unit of logistics activities provided in the month, since this amount corresponds directly to the Company's performance and the value to the customer. In some cases, the Company's contracts include other performance obligations related to managing transportation and other customer services which are included in the logistics and distribution of products. These services are typically priced at their stand-alone selling prices and are recognized over time as the customer simultaneously receives and consumes the benefits of the Company's services. Contracts with customers that contain multiple performance obligations require the Company to allocate the contractual transaction price to the identified distinct performance obligations. The allocation of the transaction price requires management to determine the standalone selling price for each distinct performance obligation. These services are recognized as revenue when they are provided to the customer.

Customers are typically billed on a weekly basis for transactional transportation services, and on a monthly basis for logistics and distribution services, and remit payment according to approved payment terms. Payment terms may range under certain contracts, but are typically 30 days. The Company recognizes unbilled revenue for transportation service revenue that has been recognized, but is not yet billed. The Company will also recognize deferred revenue when customers are billed in advance for transportation and logistics and distribution services.

Property, plant and equipment

Property, plant and equipment is accounted for at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset, the costs of dismantling and removing the assets and restoring the site on which they are located and borrowing costs on qualifying assets.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

3. Significant accounting policies (continued)

Property, plant and equipment (continued)

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized in net income or loss.

Depreciation is based on the cost of an asset less its residual value and is recognized in income or loss over the estimated useful life of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Depreciation is computed on either a declining balance basis or a straight-line basis over the estimated useful lives of the assets as follows:

Asset	Amortization Method
Facilities	Straight-line over the term of the lease
Furniture and fixtures	20-30% declining balance
Leasehold improvements	5-15 year straight-line subject to the shorter of remaining lease term or useful life
Logistics and transportation equipment	20-30% declining balance, except for storage vaults – which are amortized straight line over 40 years

Property, plant and equipment acquired or constructed during the year but not placed into use during the year are not amortized until put into use.

Goodwill and intangible assets

Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Intangible assets consist of customer relationships and internally generated software.

For internally generated software, expenditure on research activities is recognized in profit or loss as incurred. Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

Customer relationships that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

Amortization

Goodwill is not amortized.

Internally generated software is amortized on a straight-line basis over 10 years. Internally generated software acquired or constructed during the year but not placed into use during the year is not amortized until placed into use.

Customer relationships are amortized on a straight-line basis over their estimated useful lives of between 5 and 10 years.

3. Significant accounting policies (continued)

Goodwill and intangible assets (continued)

Impairment

The carrying amounts of the Company's non-financial assets other than inventoried supplies and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For goodwill, the recoverable amount is estimated on December 31 of each year as part of the annual impairment test. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU").

For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the group of CGUs (usually an operating segment of the Company), that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or group of assets.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, if any, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a prorated basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Impairment losses and impairment reversals are recognized in income or loss.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represents substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset. The Company has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
    - the Company has the right to operate the asset; or
    - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

3. Significant accounting policies (continued)

Leases (continued)

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. For the leases of land and buildings in which it is a lessee, the Company has elected to account for the lease and non-lease components separately.

a) For arrangements in which the Company is a lessee

The Company recognizes a right-of-use ("ROU") asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. The estimated useful lives of ROU assets are determined by the estimated lease term. In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

b) Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3. Significant accounting policies (continued)

Leases (continued)

c) For arrangements in which the Company is a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, the Company applies IFRS 15 to allocate the consideration in the contract.

The Company recognizes lease payments received under operating leases as income on a straight line basis over the lease term as part of 'other income'.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in income or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued)

Financial instruments

Financial assets

Accounts receivable are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes 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.

The Company's financial assets are comprised of cash and cash equivalents, accounts receivable, due from related parties, and long-term deposits. On initial recognition, the Company classifies these financial assets as measured at amortized cost, when both of the following conditions are met:

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

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

Impairment of financial assets

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

For accounts receivables, the Company applies a simplified approach in calculating expected credit losses ("ECLs"). Therefore, the Company does not track changes in credit risk but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its 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 are classified at amortized cost

The Company's financial liabilities are measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

3. Significant accounting policies (continued)

Financial instruments (continued)

Transaction costs

Transaction costs that are incremental and directly attributable to the acquisition or issue of a financial asset or financial liability are recorded as follows:

- Financial assets or financial liabilities at fair value through profit and loss – expensed to net income as incurred;
- Financial assets or liabilities recorded at amortized cost – included in the carrying value of the financial asset or financial liability and amortized over the expected life of the financial instrument using the effective interest method; and
- Equity instruments recorded at fair value through other comprehensive income – included in the initial cost of the underlying asset.

Inventories

Inventories, which consist of repair parts, materials and supplies, are carried at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis and includes all costs of purchase and any other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the unwinding of the discount is recognized as finance cost.

Segmented reporting

The Company is organized into two reportable segments: Specialized Transportation and Healthcare Logistics. In the Specialized Transportation segment, the Company provides specialized temperature controlled services to healthcare customers. The Company's transportation products include: ground transportation (comprising less-than-truckload and courier services), air freight forwarding, and dedicated and last mile delivery.

In the Healthcare Logistics segment, the Company provides contract logistics services for customers, including logistics and distribution (comprising warehousing and inventory management, order fulfillment, reverse logistics, and transportation management), and packaging (comprising reusable thermal packaging solutions and trade customization services).

Certain of the Company's operating units provide services to other Company operating units outside of their reportable segment. Billings for such services are based on negotiated rates, which approximates 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 the Company's consolidated results. The Company's chief executive officer is the Chief Operating Decision Maker ("CODM") for the Company. The CODM regularly reviews financial information at the reporting 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. The Company evaluates performance based on the various financial measures of its two reporting segments.

3. Significant accounting policies (continued)

Share-based compensation

The Company has an omnibus stock option plan and records all stock-based payments, including grants of employee stock options, at their respective fair values. The fair value of stock options granted to employees and directors is estimated at the date of grant using the Black Scholes option pricing model. The Company recognizes share-based compensation expense over the vesting period, over the life of the tranche of shares being considered. The Company also estimates forfeitures at the time of grant and revises its estimate, if necessary, in subsequent periods if actual forfeitures differ from these estimates. Any consideration paid by employees on exercising stock options and the corresponding portion previously credited to contributed surplus are credited to share capital. If a cashless exercise is undertaken, the employee or director will surrender a number of options in order to fund the cashless exercise and a further amount, representing the difference between the market price and the exercise price of the shares may be adjusted to share capital unless the Company chooses to sell the shares in the amount required to fund the cashless exercise. The Company's stock option plan is equity-settled.

The Black-Scholes option pricing model used by the Company to calculate option values was developed to estimate the fair value. This model also requires assumptions, including expected option life, volatility, risk-free interest rate and dividend yield, which greatly affect the calculated values.

Expected option life is determined using the time-to-vest-plus-historical-calculation-from-vest-date method that derives the expected life based on a combination of each tranche's time to vest plus the actual or expected life of an award based on the past activity or remaining time to expiry on outstanding awards. Expected forfeiture is derived from historical patterns. Expected volatility is determined using comparable companies for which the information is publicly available, adjusted for factors such as industry, stage of life cycle, size and financial leverage. The risk-free interest rate is determined based on the rate at the time of grant and cancellation for zero-coupon Canadian government securities with a remaining term equal to the expected life of the option. Dividend yield is based on the stock option's exercise price and expected annual dividend rate at the time of grant.

Government assistance

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.

4. 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 that follow.

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.

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

4. Segment reporting (continued)

The following table identifies selected financial data as at December 31, 2020 and 2019 and for the years then ended:

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at December 31, 2020 and for the year then ended					
Revenue	$ 229,447	$ 116,356	$ 2,400	$ (33,863)	$ 314,340
Segment income before tax	40,275	10,574	(4,269)	-	46,580
Interest income	(612)	66	831	-	285
Interest expense	(2,059)	(1,871)	(665)	-	(4,595)
Depreciation and amortization	(16,845)	(11,177)	-	-	(28,022)
Segment net income	29,716	7,700	298	-	37,714
Segment total assets	129,614	113,358	572,141	(562,316)	252,797
Additions of ROU assets	15,911	20,861	-	-	36,772
Capital expenditures	843	4,123	-	-	4,966
Segment total liabilities	119,512	61,502	28,076	(50,620)	158,470
As at December 31, 2019 and for the year then ended					
Revenue	$ 205,385	$ 109,618	$ -	$ (25,015)	$ 289,988
Segment income before tax	33,995	10,770	(2,416)	-	42,349
Interest income	901	103	-	-	1,004
Interest expense	(1,796)	(1,639)	(68)	-	(3,503)
Depreciation and amortization	(16,137)	(9,569)	-	-	(25,706)
Segment net income	24,861	7,900	(2,416)	(572)	29,773
Segment total assets	125,673	91,837	592,350	(596,865)	212,995
Additions of ROU assets	26,311	2,542	-	-	28,853
Capital expenditures	3,744	2,232	-	(41)	5,935
Segment total liabilities	80,287	46,750	43,693	(19,240)	151,490

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

The Company does not have any customers that individually represent more than 10% of revenue for the years ending December 31, 2020 and 2019.

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

5. Business combinations

Effective October 1, 2020, the Company acquired all of the issued and outstanding shares of TDS Logistics Ltd. ("TDS") and McAllister Courier Inc. ("MCI"), two regionally focused temperature-controlled transportation businesses, in a single transaction with AMG for cash consideration of $15,878, the estimated fair value of the businesses acquired. This related party transaction was accounted for as a business combination under IFRS 3. These complementary tuck-in acquisitions are expected to increase the reach of the Company's services and expand its market presence in Ontario.

For the period from acquisition on October 1, 2020 to December 31, 2020, TDS and MCI contributed revenue of $5,490 and net income of $477 to the Company's financial results, before amortization costs of $365 in connection with the intangible assets acquired. If the acquisitions had occurred on January 1, 2020, management estimates that consolidated revenue would have been approximately $331,200 and consolidated net income would have been approximately $37,700 ($38,800 excluding the effect of the incremental amortization as a result of acquisitions). In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same had the acquisition occurred on January 1, 2020.

During 2020, transaction costs of $66 have been expensed in selling, general and administrative expenses in the consolidated statements of income and comprehensive income in relation to these acquisitions.

The following table summarizes the acquisition date fair value of identifiable net assets and goodwill acquired:

Identifiable assets acquired and liabilities assumed	**Note**	**October 1, 2020**
Cash and cash equivalents		$ 945
Accounts receivable		3,767
Prepaid expenses		126
Property, plant and equipment, including ROU assets	8	1,396
Intangible assets	9	7,303
Accounts payable and accrued liabilities		(1,371)
Lease liabilities	18	(599)
Deferred tax liabilities	17	(1,835)
Total identifiable net assets		9,732
Goodwill	9	6,146
Total consideration transferred		**$ 15,878**

The accounts receivable comprise gross amounts due of $3,767, all of which were expected to be collectible at the acquisition date.

Of the goodwill and intangible assets acquired through business combinations in 2020, $nil is deductible for tax purposes.

The Company attributes significant value to an overlapping customer relationship among MCI, TDS and ATS, and certain ongoing customer relationships with MCI customers. The Company recorded intangible assets of $7,303 in connection with these customer relationships which involved estimating the value of future cash flows expected to be generated from these customers.

The goodwill is principally attributable to the premium of established business operations with good reputations in the transportation industry, and the synergies expected to be achieved from integrating the acquired entities into the Company's existing business. Goodwill arising from these business combinations has been allocated to the Specialized Transportation segment.

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

6. Accounts receivable

	December 31, 2020	December 31, 2019
Trade receivables	$ 58,096	$ 50,769
Trade receivables due from related parties (note 21)	24	441
Impairment loss	(253)	(150)
Accounts receivable	**$ 57,867**	**$ 51,060**

Estimates are used in determining the impairment loss related to trade receivables. These estimates are based on management's best assessment of the ECL of the related receivable balance, which involves estimates around the cash flows that are expected to be received. There is no impairment loss recorded against trade receivables due from related parties.

7. Inventories

Inventories consist of:

	December 31, 2020	December 31, 2019
Packaging inventory	$ 703	$ 840
Thermal packaging products and parts	525	231
Inventories	**$ 1,228**	**$ 1,071**

In 2020, the Company purchased a total of $5,248 in inventory (2019 - $5,710) and $5,091 was recognized as an expense (2019 - $6,005) during the year and included in direct operating expenses.

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

8. Property, plant and equipment

Reconciliation of the net carrying amounts for each class of property, plant and equipment is summarized below:

	Facilities[1]	Furniture and fixtures	Leasehold improvements	Logistics and transportation equipment[1]	Total
Cost					
Balance at December 31, 2018	$ 79,108	$ 7,517	$ 14,702	$ 70,324	$ 171,651
Additions	17,708	290	2,033	14,758	34,789
Dispositions	-	-	(330)	-	(330)
Balance at December 31, 2019	96,816	7,807	16,405	85,082	206,110
Additions	28,724	256	1,550	11,208	41,738
Additions through business combinations (note 5)	-	29	398	969	1,396
Dispositions	(185)	-	-	(323)	(508)
Balance at December 31, 2020	**$ 125,355**	**$ 8,092**	**$ 18,353**	**$ 96,936**	**$ 248,736**
Accumulated depreciation					
Balance at December 31, 2018	29,474	5,614	5,848	38,868	79,804
Depreciation for the year	11,057	379	1,652	10,115	23,203
Dispositions	-	-	(223)	-	(223)
Balance at December 31, 2019	40,531	5,993	7,277	48,983	102,784
Depreciation for the year	13,340	370	1,932	11,516	27,158
Dispositions	-	-	-	(121)	(121)
Balance at December 31, 2020	**$ 53,871**	**$ 6,363**	**$ 9,209**	**$ 60,378**	**$ 129,821**
Net carrying amounts					
At December 31, 2019	**$ 56,285**	**$ 1,814**	**$ 9,128**	**$ 36,099**	**$ 103,326**
At December 31, 2020	**$ 71,484**	**$ 1,729**	**$ 9,144**	**$ 36,558**	**$ 118,915**

[1] Facilities and certain logistics and transportation equipment assets are ROU assets, capitalized in accordance with IFRS 16. Refer to note 18.

The Company has applied judgement in estimating the useful life of property, plant and equipment and to determine the lease terms for ROU lease contracts that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and ROU assets recognized. In applying such judgement, management relies on historical experience and other factors, including the current economic environment, which management believes is reasonable under the circumstances.

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

9. Goodwill and intangible assets

	Goodwill	Customer relationships	Software	Proprietary technology	Total
Cost					
Balance at December 31, 2018	$ 19,720	$ 22,545	$ 5,323	$ 1,156	$ 48,744
Additions	-	-	230	-	230
Balance at December 31, 2019	19,720	22,545	5,553	1,156	48,974
Additions	-	-	473	-	473
Additions through business combinations (note 5)	6,146	7,303	-	-	13,449
Balance at December 31, 2020	**$ 25,866**	**$ 29,848**	**$ 6,026**	**$ 1,156**	**$ 62,896**
Accumulated amortization					
Balance at December 31, 2018	-	20,546	3,348	1,156	25,050
Amortization for the year	-	1,999	504	-	2,503
Balance at December 31, 2019	-	22,545	3,852	1,156	27,553
Amortization for the year	-	365	499	-	864
Balance at December 31, 2020	**$ -**	**$ 22,910**	**$ 4,351**	**$ 1,156**	**$ 28,417**
Net carrying amounts					
At December 31, 2019	**$ 19,720**	**$ -**	**$ 1,701**	**$ -**	**$ 21,421**
At December 31, 2020	**$ 25,866**	**$ 6,938**	**$ 1,675**	**$ -**	**$ 34,479**

The Company performs annual goodwill impairment testing. The Company assesses goodwill at the operating segment level, which is the lowest level within the Company at which goodwill is monitored for internal management purposes. The table below sets out goodwill allocated to operating segments:

Operating segment/reportable segment	December 31, 2020	December 31, 2019
Healthcare Logistics	$ 19,720	$ 19,720
Specialized Transportation	6,146	-
	$ 25,866	**$ 19,720**

The results of the annual impairment testing determined that the recoverable amount of the Healthcare Logistics operating segment exceeded the respective carrying amount. The recoverable amount of the Healthcare Logistics operating segment was determined using the value in use approach. The value in use methodology is based on discounted future cash flows. Management believes that the discounted future cash flows method is appropriate as it allows more precise valuation of specific future cash flows. Therefore, the Company has determined that no impairment has arisen in connection with the CGU that gave rise to goodwill through the business combination. Accordingly, no impairment loss has been recognized in each of the years ended December 31, 2020 and 2019.

The Company recorded goodwill of $6,146 in connection with the acquisition of TDS and MCI effective October 1, 2020 (note 5). Management believes the recoverable amount of the Specialized Transportation operating segment remains unchanged and that no impairment has arisen in connection with the CGU that gave rise to goodwill through the business combinations since the acquisition. Accordingly, no impairment loss has been recognized in the year ended December 31, 2020.

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

9. Goodwill and intangible assets (continued)

The majority of the customer relationships and proprietary technology reflects intangible assets that arose from a business combination in 2008 of the Specialized Transportation segment and the subsequent disposal of a portion of those operations in 2009. As at November 1, 2009, estimates of remaining customer relationships intangibles related to these transactions were recognized with straight-line amortization over 10 years and were fully amortized as at December 31, 2019.

The Company attributes significant value to an overlapping customer relationship among MCI, TDS and ATS; and certain ongoing customer relationships with MCI customers which were acquired through business combinations effective October 1, 2020. Accordingly, customer relationships includes additions of $7,303 in connection with identifiable intangible assets acquired during the year. These customer relationships intangibles are amortized on a straight-line basis over five years (note 5).

The Company performs an assessment for indicators of impairment for customer relationships and software at each reporting period. If an indicator of impairment exists, the Company would perform an impairment test to determine the recoverable amount. No such indicators of impairment were identified at any of the reporting periods covered by these financial statements.

10. Accounts payable and accrued liabilities

	December 31, 2020	December 31, 2019
Trade payables and accrued liabilities	$ 24,238	$ 22,047
Trade payables due to related parties (note 21)	86	2,016
Deferred revenue (note 16)	1,041	879
Accounts payable and accrued liabilities	**$ 25,365**	**$ 24,942**

11. Credit facilities

	December 31, 2020	December 31, 2019
Revolving credit facility	$ -	$ 3,929
Term facility	25,000	25,000
	25,000	28,929
Less: financing costs	(333)	(445)
Credit facilities	**$ 24,667**	**$ 28,484**

Recorded in the consolidated balance sheets as follows:

	December 31, 2020	December 31, 2019
Revolving credit facility	$ -	$ 3,929
Term facility	24,667	24,555
Credit facilities	**$ 24,667**	**$ 28,484**

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

11. Credit facilities (continued)

The movement in credit facilities is as follows:

	December 31, 2020	December 31, 2019
Opening balance	$ 28,484	$ -
Changes from financing cash flows		
Issuance of borrowings – revolving credit facility	-	25,000
Issuance of borrowings – term facility	-	25,000
	28,484	50,000
Less: financing costs	-	(470)
		49,530
Repayment of revolving credit facility	(3,929)	(21,071)
		28,459
Non-cash movements		
Adjustment to capitalized financing costs	112	25
Ending balance	**$ 24,667**	**$ 28,484**

On December 11, 2019 the Company entered into credit facilities with affiliates of RBC and CIBC at Closing of the initial public offering. The credit facilities comprise a revolving credit facility in the aggregate principal amount of $75,000 and a term facility in the aggregate principal amount of $25,000. The credit facilities are available to be drawn in Canadian dollars by way of prime rate loans, bankers' acceptances and letters of credit, and in U.S. dollars by way of base rate loans, LIBOR based loans and letters of credit, in each case, plus the applicable margin in effect from time to time. At December 31, 2020, the term facility comprises bankers' acceptances drawn at an interest rate of 1.9% (2019 – prime rate loans at an interest rate of 4.4%).

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 December 31, 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. There is no repayment schedule for the term facility except at maturity.

Amounts recognized in the consolidated statements of income and comprehensive income in connection with interest expense on the credit facilities for the year ended December 31, 2020 was $665 (2019 – $68).

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

12. Financial instruments and financial risk management

Accounting classifications and fair values

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.

Financial risk factors

The Company, through its financial assets and liabilities, has exposure to the following risks from its 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

The Company is exposed to credit risk in the event of non-performance by counterparties in connection with its financial assets, namely cash and cash equivalents, accounts receivable and long-term deposits. The Company does not typically obtain collateral or other security to support the accounts receivable subject to credit risk but mitigates this risk by performing credit check procedures for new customers and monitoring credit limits for existing customers. Thereby, the Company deals only with what management believes to be financially sound counterparties and, accordingly, does 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.

Accounts receivable aging is set out below:

	December 31, 2020	December 31, 2019
Current (not past due)	$ 36,924	$ 31,198
0-30 days past due	12,394	12,863
31-60 days past due	3,975	3,567
More than 61 days past due	2,192	1,306
Gross	55,485	48,934
Unbilled revenue	2,635	2,276
Impairment loss (note 6)	(253)	(150)
Accounts receivable, net	**$ 57,867**	**$ 51,060**

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

12. Financial instruments and financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable, or raising of funds to meet commitments and sustain operations. The Company controls liquidity risk by management of working capital, cash flows and the availability of borrowing facilities.

As of December 31, 2020, $nil (2019 - $3,929) has been drawn on the $75,000 revolving credit facility, and $25,000 (2019 - $25,000) has been drawn on the $25,000 term facility. There is no repayment schedule for the term facility except at maturity. The credit facilities are repayable in full on December 11, 2023.

The Company's accounts payable and accrued liabilities are due and payable in the short-term.

Interest rate risk

The Company has a revolving and term credit facilities that bear interest at a floating rate subject to fluctuations in the bank prime rate. Changes in the bank prime lending rate can cause fluctuations in interest payments and cash flows. The Company does not use derivative financial instruments to mitigate the effect of this risk. The facilities under this agreement 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 December 31, 2020, the term facility comprises bankers' acceptances drawn at an interest rate of 1.9% (2019 – prime rate loans at an interest rate of 4.4%).

During the year, there has been no exposure to significant interest rate fluctuations.

Currency risk

The Company enters into foreign currency purchase and sale transactions and has assets and liabilities that are denominated in foreign currencies and thus are exposed to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk.

At year-end, the Company has the following US dollar foreign currency denominated balances:

Currency risk	December 31, 2020	December 31, 2019
Cash	$ 473	$ 544
Accounts receivable	88	85
Accounts payable and accrued liabilities	169	55

13. 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 28,500 subordinate voting shares are owned by the Company's parent, AMG. The following table summarizes the number of common shares issued (note 1):

	Number of common shares (in thousands)			Share capital (in thousands of dollars)		
	Multiple voting common shares	Subordinate voting common shares	Total common shares	Multiple voting common shares	Subordinate voting common shares	Total share capital
Balance at November 12, 2019	-	-	-	$ -	$ -	$ -
Shares issued in connection with the acquisition of the AHG Entities	25,100	1,000	26,100	376,500	15,000	391,500
Shares issued in connection with the initial public offering	-	10,000	10,000	-	150,000	150,000
Shares issued in connection with the over-allotment option	-	1,500	1,500	-	22,500	22,500
Transaction costs	-	-	-	-	(14,321)	(14,321)
Balance at December 31, 2019	25,100	12,500	37,600	$ 376,500	$ 173,179	$ 549,679
Shares issued in connection with the exercise of options (note 15)	-	3	3	-	(17)	(17)
Balance at December 31, 2020	**25,100**	**12,503**	**37,603**	**$ 376,500**	**$ 173,162**	**$ 549,662**

Dividends to subordinate voting and multiple voting shareholders

During the year ended December 31, 2020, the Company declared total dividends of $7,929, or $0.21 per common share, on subordinate voting and multiple voting shares. Included in accounts payable and accrued liabilities as at December 31, 2020 is $1,880, or $0.05 per common share, for dividends paid on January 15, 2021 to common shareholders of record on December 31, 2020.

14. Earnings per share

Basic earnings per share

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

(in thousands of dollars and number of shares)	December 31, 2020	December 31, 2019
Net income attributable to the common shareholders of the Company	$ 37,714	$ 29,773
Weighted average number of common shares	37,600	37,600
Earnings per share – basic	**$ 1.00**	**$ 0.79**

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)	December 31, 2020	December 31, 2019
Net income attributable to the common shareholders of the Company	$ 37,714	$ 29,773
Weighted average number of common shares	37,600	37,600
Dilutive effects:		
Stock options	853	169
Deferred share units	23	-
Weighted average number of diluted common shares	38,476	37,769
Earnings per share – diluted	**$ 0.98**	**$ 0.79**

15. 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.

15. Share-based payment arrangements (continued)

Stock option plan (equity-settled) (continued)

On December 11, 2019 the Board of Directors approved a grant of 1.65 million options, of which 6 thousand options were exercised during December 2020. Of the options outstanding at December 31, 2020, a total of 700 thousand are held by non-executive directors; 400 thousand are held by executive officers; with the remaining 544 thousand held by key management personnel.

Estimating fair value for share-based payment arrangements requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. The Company is also required to determine the most appropriate inputs to the valuation model, including estimates and assumptions with respect to expected life, risk-free interest rate, volatility, distribution yield, and forfeiture rate.

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**

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

	December 31, 2020		December 31, 2019	
(in thousands of options and in dollars)	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	1,650	$ 15.00	-	$ -
Granted	-	-	1,650	15.00
Exercised	(6)	15.00	-	-
Forfeited	-	-	-	-
Ending balance	1,644	15.00	1,650	15.00
Options exercisable	**669**	**$ 15.00**	**350**	**$ 15.00**

The Company recognized compensation expense of $2,371 for the year ended December 31, 2020 (2019 – $1,394), 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)

15. Share-based payment arrangements (continued)

During the year 325 thousand options vested, of which 6 thousand were exercised. The options were exercised on a cashless basis resulting in 3 thousand subordinate voting common shares being issued from treasury and the surrender of 3 thousand options used to fund the option exercise and employee tax withholdings. The volume weighted average price used to calculate the cashless exercise in accordance with the Company's Omnibus Equity Incentive Plan was $38.75 per share at the time of exercise. The cashless exercise gave rise to a notional issue of shares at $15.00 per share and a related buy-back at $38.75 per share resulting in a $17 net reduction in share capital after transferring the option value of the options exercised from contributed surplus to share capital and funding employee withholding taxes. The transfer of the option value of the options exercised resulted in a $24 reduction to contributed surplus at $3.60 per share.

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 year ended December 31, 2020, the Company recognized a compensation expense of $707, with corresponding increases to contributed surplus (2019 – $nil).

The table below summarizes the changes in the outstanding DSUs:

(thousands of DSUs)	**DSUs**
Outstanding at December 31, 2019	-
Granted	23
Outstanding at December 31, 2020	**23**

16. 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.

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

16. Revenue (continued)

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 4).

Major products/service lines	**December 31, 2020**	**December 31, 2019**
Logistics and distribution	$ 96,976	$ 88,311
Packaging solutions	19,380	21,307
Healthcare Logistics segment	**116,356**	**109,618**
Ground transportation	177,170	169,040
Air freight forwarding	22,482	19,656
Dedicated and last mile delivery	29,795	16,689
Intersegment revenue	(31,463)	(25,015)
Specialized Transportation segment	**197,984**	**180,370**
Total revenue	**$ 314,340**	**$ 289,988**

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 December 31, 2020 there was $1,041 (2019 – $879) recorded in accounts payable and accrued liabilities (note 10). Revenue recognized in 2020 of $836 (2019 – $647) was included in the opening deferred revenue balance at the beginning of the period.

17. Income taxes

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

	December 31, 2020	**December 31, 2019**
Current income tax expense:		
Current taxes on income for the reporting period	$ 14,439	$ 11,718
Current taxes referring to previous periods and other adjustments	698	(77)
	15,137	11,641
Deferred income tax recovery:		
Deferred tax provision on loss for the period	(1,063)	-
Origination and reversal of temporary differences	(409)	361
Impact of change in tax rates of subsidiaries	(12)	(21)
Previously unrecognized deferred tax assets	(4,066)	-
Deferred taxes referring to previous periods and other adjustments	(721)	23
	(6,271)	363
Income tax expense reported to the statements of income and comprehensive income	**$ 8,866**	**$ 12,004**

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

17. Income taxes (continued)

Total cash outflow for actual taxes paid for the year ended December 31, 2020 was $22,927 (2019 – $12,331).

b) **Reconciliation of effective tax rate**

	December 31, 2020	December 31, 2019
Income before income taxes	$ 46,580	$ 42,349
Consolidated Canadian federal and provincial income tax rate	26.5%	26.5%
Income tax expense based on statutory rate	12,344	11,222
Increase (decrease) in income taxes resulting from non-deductible items or other adjustments		
Permanent differences	695	427
Impact of varying statutory tax rates of subsidiaries	(102)	122
(Recognized) unrecognized tax losses	(4,066)	271
Taxes relating to previous periods and other adjustments	(5)	(38)
Total income tax expense	**$ 8,866**	**$ 12,004**

Deferred taxes

	December 31, 2020	December 31, 2019
Deferred tax assets	$ 6,139	$ 46
Deferred tax liabilities	(1,978)	(321)
Net deferred tax asset (liability)	**$ 4,161**	**$ (275)**

c) **Movement in deferred tax balances**

	December 31, 2020	Recognized in income or loss	Acquired in business combinations (note 5)	December 31, 2019
Plant and equipment	$ (1,052)	$ (474)	$ (59)	$ (519)
Accounts payable and accrued liabilities	453	185	-	268
Intangibles	(1,085)	141	(1,935)	709
Deductions (income) deferred for tax purposes	1,303	2,799	-	(1,496)
Leases	1,484	562	159	763
Finance costs	3,058	3,058	-	-
Net deferred tax asset (liability)	**$ 4,161**	**$ 6,271**	**$ (1,835)**	**$ (275)**

	December 31, 2019	Recognized in income or loss	December 31, 2018
Plant and equipment	$ (519)	$ (259)	$ (260)
Accounts payable and accrued liabilities	268	(58)	326
Intangibles	709	513	196
Income deferred for tax purposes	(1,496)	(626)	(870)
Leases	763	67	696
Net deferred tax asset (liability)	**$ (275)**	**$ (363)**	**$ 88**

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

17. Income taxes (continued)

d) **Unrecognized deferred tax assets**

Previously unrecognized deferred tax assets have been recognized in the current year's provision for income taxes. The Company has determined that it will have sufficient future taxable profit available against which the Company can use the benefits therefrom. Deductible temporary differences as at December 31, 2019 represent costs incurred by the Company related to the acquisition of the AHG Entities and charged directly to equity.

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

The Company has non-capital tax loss carryforwards of $901 and $4,012 which will expire in 2039 and 2040 respectively.

e) **Uncertainty over income tax treatments**

The calculation of current and deferred income taxes requires management to make certain judgements regarding the tax rules in jurisdictions where the Company performs activities. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

18. Leases

The Company leases buildings and equipment in the operation of its Transportation and Logistics businesses. The Company is required to estimate the incremental borrowing rates used to discount lease liabilities if the interest rate implicit in the lease is not readily determined. The Company estimates its incremental borrowing rates for portfolios of leases with similar characteristics, such as similar risk profiles, same or similar types of security, and similar lease terms. Building lease terms range from 5 to 10 years. Facilities lease liabilities are calculated using the Company's incremental borrowing rate based on the specific lease commitments and term for each facility. The average incremental borrowing rate for facilities for 2020 is 2.99% (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 2020 is 3.11% for Specialized Transportation and 2.70% for Healthcare Logistics (2019 – 4.07% for Specialized Transportation; 3.95% for Healthcare Logistics).

Right-of-use assets – Facilities	**As at and for the year ended December 31, 2020**	**As at and for the year ended December 31, 2019**
Opening balance	$ 56,285	$ 49,634
Add: additions	28,724	17,708
Less: derecognition	(185)	-
Less: depreciation	(13,340)	(11,057)
Ending balance	**71,484**	**$ 56,285**

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

18. Leases (continued)

Right-of-use assets – Logistics and transportation equipment	As at and for the year ended December 31, 2020	As at and for the year ended December 31, 2019
Opening balance	$ 28,018	$ 25,400
Add: additions	8,048	11,145
Add: additions through business combinations	588	-
Less: derecognition	(183)	-
Less: depreciation	(9,215)	(8,527)
Ending balance	**$ 27,256**	**$ 28,018**

Net carrying amounts of right-of-use assets included in property, plant and equipment	December 31, 2020	December 31, 2019
Facilities	$ 71,484	$ 56,285
Logistics and transportation equipment	27,256	28,018
Balance	**$ 98,740**	**$ 84,303**

Lease liabilities – Facilities	As at and for the year ended December 31, 2020	As at and for the year ended December 31, 2019
Opening balance	$ 60,948	$ 53,927
Add: additions	28,724	17,583
Add: interest expense	2,813	2,238
Less: derecognition	(212)	-
Less: principal repayments	(11,784)	(10,562)
Less: interest payments	(2,813)	(2,238)
Ending balance	**$ 77,676**	**$ 60,948**

Lease liabilities – Logistics and transportation equipment	As at and for the year ended December 31, 2020	As at and for the year ended December 31, 2019
Opening balance	$ 27,765	$ 25,093
Add: additions	8,048	11,146
Add: additions through business combinations	599	-
Add: interest expense	1,117	1,019
Less: derecognition	(190)	-
Less: principal repayments	(8,952)	(8,474)
Less: interest payments	(1,117)	(1,019)
Ending balance	**$ 27,270**	**$ 27,765**

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

18. Leases (continued)

Cash lease principal payments	**Year ended December 31, 2020**	**Year ended December 31, 2019**
Repayments of lease principal	$ (20,736)	$ (19,036)
Pre-payment of leases	-	(125)
Total lease payments	**$ (20,736)**	**$ (19,161)**

Lease liabilities	**December 31, 2020**	**December 31, 2019**
Facilities	$ (77,676)	$ (60,948)
Logistics and transportation equipment	(27,270)	(27,765)
Balance	**$ (104,946)**	**$ (88,713)**

Lease liabilities included in consolidated balance sheets	**December 31, 2020**	**December 31, 2019**
Current	$ (21,197)	$ (19,129)
Non-current	(83,749)	(69,584)
Balance	**$ (104,946)**	**$ (88,713)**

Maturity analysis for lease liabilities - contractual undiscounted cash flows	**December 31, 2020**	**December 31, 2019**
Less than one year	$ 24,720	$ 22,407
One to 5 years	71,506	58,882
More than 5 years	21,678	19,092
Total undiscounted lease liabilities	**$ 117,904**	**$ 100,381**

Amounts recognized in the consolidated statements of income and comprehensive income in connection with interest expense for lease liabilities for 2020 was $3,930 (2019 – $3,257). Total cash outflow for leases for 2020 was $24,666 (2019 – $22,418).

19. Interest expense

Interest expense recognized in income and comprehensive income	**December 31, 2020**	**December 31, 2019**
Leases	$ 3,930	$ 3,257
Term facility	665	68
Other	-	178
Total interest expense	**$ 4,595**	**$ 3,503**

Interest expense recognized in the consolidated statements of income and comprehensive income equates to total interest paid for the years ended December 31, 2020 and 2019.

20. Commitments and contingencies

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

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

c) The Company has made commitments for fleet equipment, with the terms to begin upon delivery of the equipment in 2021. Commitments range from 60 to 84 months and total $9,211 (2019 – $2,987).

21. Related parties

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

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

Andlauer Management Group Inc. ("AMG") provides key management personnel to the Company for which it receives management fees. The Company recovers certain facilities lease costs from AMG. The Company also provides certain shared services (primarily accounting services) to AMG.

Effective October 1, 2020, the Company acquired all of the issued and outstanding shares of TDS Logistics Ltd. and McAllister Courier Inc., from AMG for cash consideration of $15,878, the estimated fair value of the businesses acquired (note 5). Accordingly, revenue and expense transactions in connection with TDS and MCI for 2020 set out in the table below comprise transactions for the nine-month period ending September 30, 2020.

21. Related parties (continued)

Andlauer Properties and Leasing Inc. ("APLI") is a subsidiary of AMG and leases certain facilities and logistics and transportation equipment to the Company. The Company also leases facilities and logistics and transportation equipment from arm's length providers. The Company provides certain shared services (primarily accounting services) to APLI.

9143-5271 ("9143") Quebec Inc. is a subsidiary of AMG and leases a facility in Quebec to the Company. The Company provides certain shared services (primarily accounting services) to 9143.

Ready Staffing Solutions Inc., a company owned by Mr. Andlauer's spouse, provides the Company with temporary agency employee services – providing hourly dock labour for handling operations, principally in the GTA. The Company also purchases temporary agency employee services from arm's length providers.

1708998 Ontario Limited (Medical Courier Services) ("MCS") is a subsidiary owned 80% by AMG and provides transportation services to the Company, providing extended reach for shipments where the Company does not have facilities or equipment. The Company also provides certain shared services (primarily accounting services) to MCS.

McAllister Courier Inc. is a subsidiary of 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 the Company, providing extended reach for shipments where the Company does not have facilities or equipment.

TDS Logistics Ltd. is a subsidiary of AMG (until October 1, 2020, at which time TDS became a wholly-owned subsidiary of the Company – see disclosure under AMG above) and provides transportation services to the Company, providing additional capacity where the Company can sub-contract deliveries to take advantage of coincidences of delivery. Similarly, the Company provides transportation services to TDS. The Company also provides certain shared services (primarily accounting services) to TDS and recovers certain lease costs from TDS.

Med Express is a subsidiary owned 50% by AMG and provides transportation services to the Company, providing extended reach for shipments where the Company does not have facilities or equipment.

AWA Transportation & Logistics Inc. is a subsidiary of AMG and provides transportation services to AHG, providing extended reach for shipments where the Company does not have facilities or equipment.

D.C. Racking & Maintenance Inc. ("DCR") and Logiserv Inc. ("Logiserv") are owned by Cameron Joyce, a member of AHG's board of directors. DCR provides warehouse racking installation and maintenance and repair services to the Company. Logiserv provides warehouse racking and racking components as well as warehouse racking installation, maintenance and repair services. The Company also purchases warehouse racking installation, maintenance and repairs, and warehouse racking and racking components from arm's length providers.

C-GHBS Inc. is a subsidiary of AMG and provides air travel services to the Company.

Bulldog Hockey Inc. is a subsidiary of AMG and provides sports and entertainment services to the Company.

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

21. Related parties (continued)

	December 31, 2020	December 31, 2019
Revenue		
Transportation services		
TDS Logistics Ltd.	$ 534	$ 721
1708998 Ontario Limited (Medical Courier Services)	27	7
Facility rent recovery		
TDS Logistics Ltd.	492	656
Andlauer Management Group Inc.	-	320
Shared service recovery		
TDS Logistics Ltd.	189	252
Andlauer Properties and Leasing Inc.	35	18
Andlauer Management Group Inc.	12	12
9143-5271 Quebec Inc.	32	30
1708998 Ontario Limited (Medical Courier Services)	12	12
Equipment rental recovery		
TDS Logistics Ltd.	273	364
McAllister Courier Inc.	21	-
Expenses		
Transportation services		
McAllister Courier Inc.	682	972
1708998 Ontario Limited (Medical Courier Services)	167	253
TDS Logistics Ltd.	469	558
AWA Transportation & Logistics Inc.	813	-
Med Express Ltd.	25	-
Contract labour services		
Ready Staffing Solutions Inc.	4,166	4,153
Equipment rent		
Andlauer Properties and Leasing Inc.	1,875	1,484
Shared services		
Andlauer Management Group Inc.	-	670
Facility rent		
Andlauer Properties and Leasing Inc.	1,447	605
9143-5271 Quebec Inc.	1,468	1,149
Sports and entertainment services		
Bulldog Hockey Inc.	-	25
Maintenance services		
D.C. Racking and Maintenance Inc. and Logiserv Inc.	64	46
Travel services		
C-GHBS Inc.	174	329
Capital asset purchases		
Purchases of logistics and transportation equipment		
Logiserv Inc.	-	335

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

21. Related parties (continued)

	December 31, 2020	December 31, 2019
Trade receivables due from related parties		
Andlauer Management Group Inc.	$ -	$ 60
AWA Transportation Services & Logistics Inc.	1	-
TDS Logistics Ltd.	-	380
Andlauer Properties and Leasing Inc.	20	-
1708998 Ontario Limited (Medical Courier Services)	3	-
9143-5271 Quebec Inc.	-	1
Total trade receivables	24	441
Due from related parties		
Andlauer Management Group Inc.	10	53
Andlauer Properties and Leasing Inc.	371	186
	381	239
Total due from related parties	**$ 405**	**$ 680**

	December 31, 2020	December 31, 2019
Trade payables due to related parties		
Ready Staffing Solutions Inc.	$ 23	$ 397
McAllister Courier Inc.	-	71
TDS Logistics Ltd.	-	100
Andlauer Properties and Leasing Inc.	18	1,196
Andlauer Management Group Inc.	24	-
Med Express	-	1
D.C. Racking and Maintenance Inc.	-	1
Logiserv Inc.	21	69
Bulldog Hockey Inc.	-	28
C-GHBS Inc.	-	153
Total trade payables	86	2,016
Due to related parties		
M. Andlauer	-	161
TDS Logistics Ltd.	-	174
	-	335
Total due to related parties	**$ 86**	**$ 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.

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

21. Related parties (continued)

Key management personnel compensation comprised the following:

Key management compensation	December 31, 2020	December 31, 2019
Salaries and benefits	$ 3,223	$ 2,390
Share-based payment arrangements	1,366	1,301
Director deferred share units	707	-
Total key management compensation	**$ 5,296**	**$ 3,691**

22. 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.

	December 31, 2020	December 31, 2019
Revolving credit facility	$ -	$ 3,929
Total lease liabilities	104,946	88,713
Term facility	24,667	24,555
Less: cash and cash equivalents	(30,148)	(18,712)
Net debt	99,465	98,485
Net income	37,714	30,345
Interest income	(285)	(1,004)
Interest expense	4,595	3,503
Income tax expense	8,866	12,004
Depreciation and amortization	28,022	25,706
EBITDA	78,912	70,554
Net leverage ratio	1.26	1.40

23. 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.

23. COVID-19 Pandemic (continued)

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.

The Government of Canada introduced the Canada Emergency Wage Subsidy ("CEWS") as part of its COVID-19 response. The program is currently effective from March 15, 2020 to June 2021 and provides a wage subsidy for entities that have experienced revenue declines over the comparable period in the prior year. During the year ended December 31, 2020, the Company recorded a $2,366 reduction to direct operating expenses in connection with the CEWS for its Nova Pack Ltd. subsidiary. The Company qualified for CEWS assistance for the 4-week period ending December 19, 2020 and recorded a receivable of $235 as at December 31, 2020. It is uncertain whether the Company will continue to qualify for CEWS assistance in the future.

24. Subsequent event

On February 23, 2021, the Company entered into definitive agreements to acquire 100% of Skelton Canada Inc. and 49% of Skelton USA Inc. (the "Skelton Companies") for total aggregate consideration of approximately $114,700, subject to customary working capital adjustments. The acquisitions are expected to close on or about March 1, 2021.

AHG will finance the acquisitions through a combination of cash on hand and by drawing $75,000 on its credit facilities and issuing $25,000 of AHG subordinate voting shares to the shareholders of the Skelton Companies. In connection with the acquisitions, AHG has entered into an agreement with its lenders to increase the size of its credit facilities. The amended facilities will consist of a revolving facility in the aggregate principal amount of up to $100,000 and a term facility in the aggregate principal amount of up to $50,000.

Shares Outstanding (As at Dec. 31, 2020)
Subordinate Voting Shares ("SVS"): 12,502,805
Multiple Voting Shares: 25,100,000

Stock Exchange Listing
Andlauer Healthcare Group's SVS are listed on the Toronto Stock Exchange under the symbol "AND"

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Registrar and Transfer Agent
TMX Trust Company

Auditor
KPMG LLP

Legal Counsel
Goodmans LLP

Virtual Annual General Meeting
Wednesday, May 12, 2021, at 11 a.m. (ET)
www.andlauerhealthcare.com

Executive Team

Michael Andlauer
Chief Executive Officer

Peter Bromley, CPA, CA
Chief Financial Officer

Stephen Barr
President, Transportation

Bob Brogan
President, Specialty Solutions

Reg Sheen, CPA, CA
President, Logistics

Board of Directors

Peter Jelley
Chair

Rona Ambrose [1, 2, 3]
Lead Director

Michael Andlauer
Director and Chief Executive Officer

Andrew Clark [1, 2]
Director

Cameron Joyce
Director

Joseph Schlett, CPA, CA
Director

Evelyn Sutherland, FCPA, FCA [1, 2*, 3]
Director

Thomas Wellner [1, 3*]
Director

1 Independent director
2 Member of Compensation, Nominating & Governance Committee
3 Member of the Audit Committee
* Denotes Committee Chair

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