Andlauer
HEALTHCARE GROUP

Q2 2021
REPORT

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ANDLAUER HEALTHCARE GROUP INC.

Management's Discussion and Analysis
of Financial Condition and Results of Operations
for the three and six-month periods ended June 30, 2021 and 2020

August 11, 2021

TABLE OF CONTENTS

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

This management's discussion and analysis of financial condition and results of operations ("MD&A") for the three and six-month periods ended June 30, 2021 and 2020 should be read in conjunction with Andlauer Healthcare Group Inc.'s unaudited interim condensed consolidated financial statements for the three and six-month periods ended June 30, 2021 and 2020, along with the related notes thereto and the audited annual consolidated financial statements, related notes thereto and MD&A for the years ended December 31, 2020 and 2019. This MD&A is presented as of August 11, 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 "Q2 2021" are to the three months ended June 30, 2021; "Q2 2020" are to the three months ended June 30, 2020; "Q1 2021" are to the three months ended March 31, 2021; "Q1 2020" are for the three months ended March 31, 2020, "Q4 2020" are to the three months ended December 31, 2020; "Q3 2020" are to the three months ended September 30, 2020; "YTD 2021 are to the six months ended June 30, 2021; YTD 2020 are to the six months ended June 30, 2020; "Fiscal 2022" are to the year ended December 31, 2022; "Fiscal 2021" are to the year ended December 31, 2021; and "Fiscal 2020" are to the year ended December 31, 2020.

Cautionary Note Regarding Forward-Looking Information

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

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

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

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

- the impact of the COVID-19 pandemic on our operations, business and financial results including the Canadian supply of COVID-19 vaccines;
- 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 unaudited interim condensed consolidated financial statements as at and for the three and six-month periods ended June 30, 2021 and 2020 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Under International Financial Reporting Standards ("IFRS"), additional disclosures are required in the annual financial statements and therefore, our unaudited interim condensed consolidated financial statements and accompanying notes should be read in conjunction with the notes to our audited annual consolidated financial statements for the years ended December 31, 2020 and 2019.

Our unaudited interim condensed consolidated financial statements have been prepared using consistent accounting policies and methods used in the preparation of our audited annual consolidated financial statements.

Non-IFRS Measures

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

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

For quantitative reconciliations of net income and comprehensive income to EBITDA for Q2 2021, YTD 2021, Q2 2020 and YTD 2020, 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".

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, ATS Dedicated and Skelton brands, 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 29 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 newest 220,000 square-foot logistics and distribution 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.

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.

In Q4 2020 we completed two tuck-in acquisitions: TDS Logistics Ltd. ("TDS"), now branded as "ATS Dedicated", and McAllister Courier Inc. ("MCI"), our first acquisitions as a public company. These two regionally focused temperature-controlled transportation businesses increase the reach of our services and expand our market presence in Ontario.

On March 1, 2021, we acquired 100% of Skelton Canada Inc. ("Skelton") and 49% of Skelton USA Inc. ("Skelton USA") which enhance our platform with expanded national 2-8°C specialized temperature-controlled capabilities and provide us with a strategic entry into the U.S. market. The purchase agreement for this transaction also included an option for AHG to acquire the remaining 51% of Skelton USA.

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.

Q2 2021 Compared to Q2 2020

Select highlights include the following:

- Revenue increased 52.5% to $107.1 million, compared to $70.3 million in Q2 2020;
- Operating income increased 69.5% to $18.8 million, compared to $11.1 million in Q2 2020;
- Net income and comprehensive income increased 84.7% to $13.1 million, compared to $7.1 million in Q2 2020;
- EBITDA increased 66.7% to $30.0 million, compared to $18.0 million in Q2 2020;
- EBITDA Margin was 28.0%, compared to 25.6% in Q2 2020;
- On March 1, 2021, we acquired 100% of Skelton, 49% of Skelton USA and an option to acquire the remaining 51% of Skelton USA for total aggregate consideration of approximately $114.7 million, subject to customary working capital adjustments. Skelton contributed approximately $10.5 million of revenue during Q2 2021;
- We continued our business continuity incident response management in connection with the ongoing COVID-19 pandemic and successfully maintained service levels while proactively implementing measures across our operations to prioritize the health and safety of our personnel, clients, and suppliers; and
- During Q2 2021 we provided logistics and distribution, specialized transportation and packaging solutions to certain of our manufacturer, 3PL provider, wholesaler and government clients that are involved in the Canadian supply of COVID-19 vaccines and ancillary products. In Q2 2021, our COVID-19 vaccine-related revenue comprised approximately 5.0% of total revenue as the Canadian government secured additional supply of vaccines throughout the quarter. We expect to continue to provide distribution, specialized transportation and packaging solutions to our clients

involved in the supply of COVID-19 vaccines, however it is not clear whether the level of activity experienced in Q2 2021 will be sustained throughout the remainder of Fiscal 2021.

YTD 2021 Compared to YTD 2020

Select highlights include the following:

- Revenue increased 33.6% to $202.9 million, compared to $151.9 million in YTD 2020;
- Operating income increased 50.9% to $35.5 million, compared to $23.5 million in YTD 2020;
- Net income and comprehensive income increased 61.7% to $24.7 million, compared to $15.2 million in YTD 2020;
- EBITDA increased 50.9% to $55.5 million, compared to $36.8 million in YTD 2020; and
- EBITDA Margin was 27.3% in YTD 2021, compared to 24.2% in YTD 2020.

How We Assess the Performance of Our Business

We have historically operated and managed our healthcare logistics and specialized transportation 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 names ATS Healthcare, ATS Dedicated and Skelton. Following our initial public offering ("IPO") completed December 11, 2019, both Accuristix and ATS Healthcare have continued to operate autonomously, each having its own management. Skelton, which we acquired on March 1, 2021 and which is reported in the specialized transportation segment, is also expected to operate autonomously, as it did prior to the acquisition. Over time, as we grow, our operating segments may change. If this occurs, we will reflect the change in our reporting practices.

Except for trailers purchased by Skelton, 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 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, ATS Dedicated and Skelton brands, 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 and Skelton 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, followed by Skelton. 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.

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.

Share of Profit of Equity-Accounted Investee

On March 1, 2021, we acquired a 49% interest in Skelton USA, a private domestic U.S. dedicated healthcare carrier specialized in 2-8°C cold-chain transportation for pharmaceuticals. Management has determined that it does not control Skelton USA; accordingly, we account for this investment in Skelton USA using the equity method of accounting. Under the equity method of accounting, an equity investment is initially recorded at cost and is subsequently adjusted to reflect the investor's share of the net profit or loss of the investee.

Interest Income

Interest income comprises interest earned on cash and cash equivalents. In Q2 2021, we sub-leased a facility to a third party that had previously been classified as a right-of-use asset. We derecognized net book value from right-of-use assets and established a net investment lease in connection with this facility. Interest income includes interest generated by this sub-lease.

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, and for borrowings under our Credit Facilities (as defined below).

Income Tax Expense

Income tax expense comprises the amount that we have recognized in the accounting period related to our taxable income. Our effective tax rate is generally close to the statutory rate, but certain differences between income for tax and accounting income are recognized in the deferred income tax provision.

Non-IFRS Measures

EBITDA

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

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

EBITDA Margin

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

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

Selected Consolidated Financial Information

The following table summarizes our results of operations for the periods indicated. The selected consolidated financial information for Q2 2021, Q2 2020, YTD 2021 and YTD 2020, has been derived from our unaudited interim condensed consolidated financial statements and the related notes thereto.

($CAD 000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Revenue				
Logistics & Distribution	29,153	21,660	56,781	45,227
Packaging Solutions	5,566	3,851	11,217	11,195
Healthcare Logistics Segment	34,719	25,511	67,998	56,422
Ground Transportation	62,269	39,504	115,852	85,833
Air Freight Forwarding	6,434	5,390	13,035	10,655
Dedicated and Last Mile Delivery	13,412	6,192	24,630	12,459
Intersegment Revenue	(9,709)	(6,344)	(18,624)	(13,466)
Specialized Transportation Segment	72,406	44,742	134,893	95,481
Total revenue	**107,125**	**70,253**	**202,891**	**151,903**
Operating expenses				
Cost of transportation and services	47,257	28,498	88,575	62,038
Direct operating expense	21,551	17,006	42,189	38,603
Selling, general and administrative expenses	9,182	6,771	17,889	14,487
Depreciation & amortization	10,343	6,889	18,783	13,282
	88,333	59,164	167,436	128,410
Operating income	**18,792**	**11,089**	**35,455**	**23,493**

($CAD 000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Operating income	**18,792**	**11,089**	**35,455**	**23,493**
Share of profit of equity-accounted investee, net of tax	826	-	1,094	-
Interest expense	(1,716)	(1,212)	(3,084)	(2,419)
Interest income	36	34	141	186
Other income	12	(19)	128	(17)
Income tax expense	(4,899)	(2,825)	(9,072)	(5,994)
Net income and comprehensive income attributable to Shareholders of the Company	**13,051**	**7,067**	**24,662**	**15,249**
Earnings per share – basic	$ 0.34	$ 0.19	$ 0.65	$ 0.41
Earnings per share – diluted	$ 0.33	$ 0.18	$ 0.63	$ 0.40
Select financial metrics				
EBITDA	29,973	17,959	55,460	36,758
EBITDA Margin	28.0%	25.6%	27.3%	24.2%

Consolidated Balance Sheets

($CAD 000s)	As At June 30,	
	2021	2020
Select financial position data		
Total assets	395,403	227,835
Total non-current liabilities	167,887	102,938

Consolidated Statements of Changes in Equity

($CAD 000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Select financial data				
Dividends	1,924	1,880	3,847	4,169

Reconciliation of Non-IFRS Measures

The following table provides a reconciliation of net income and comprehensive income for Q2 2021 and Q2 2020:

($CAD 000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income and comprehensive income	13,051	7,067	24,662	15,249
Income tax expense	4,899	2,825	9,072	5,994
Interest expense	1,716	1,212	3,084	2,419
Interest income	(36)	(34)	(141)	(186)
Depreciation & amortization	10,343	6,889	18,783	13,282
EBITDA	**29,973**	**17,959**	**55,460**	**36,758**

Results of Operations

Three months ended June 30, 2021 compared with 2020

The following section provides an overview of our financial performance for Q2 2021 compared to Q2 2020.

<u>Revenue</u>

Revenue for Q2 2021 increased by 52.5% to $107.1 million, compared with $70.3 million in Q2 2020. Our TDS, MCI and Skelton acquisitions accounted for approximately $17.7 million of the $36.9 million increase with the remaining growth attributable to organic growth as described below.

Healthcare Logistics Segment

Revenue in our healthcare logistics segment for Q2 2021 was $34.7 million, an increase of 36.1%, or approximately $9.2 million, compared with Q2 2020. The increase in revenue for this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for Q2 2021 was $29.2 million, an increase of 34.6%, or approximately $7.5 million, compared with Q2 2020. 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 220,000 square-foot facility in Brampton, Ontario in July 2020. The impact of the significant new client contract has been reflected in our growth rate for a full 12 months at the end Q2 2021.

Packaging Solutions

Packaging revenue for Q2 2021 was $5.6 million, an increase of 44.5%, or approximately $1.7 million, compared with Q2 2020. The increase was partially attributable to the near-complete restoration of operating capacity to pre-pandemic levels as we were able to gradually and safely ease limitations on the number of associates in our operations to allow for physical distancing in accordance with public health guidelines. The remainder of the increase was due to retailers restoring their previously deferred orders for certain of our consumer healthcare clients' products in connection with the lifting of certain travel restrictions to vacation destinations.

Specialized Transportation Segment

Revenue in our specialized transportation segment for Q2 2021 was $72.4 million, an increase of 61.8%, or approximately $27.7 million, compared with Q2 2020. Revenue growth in this segment was primarily driven by the factors set out below.

Air Freight Forwarding

Air freight forwarding revenue for Q2 2021 was $6.4 million, an increase of 19.4%, or approximately $1.0 million, compared with Q2 2020. The increase was primarily attributable to volume increases in Q2 2021 as compared to Q2 2020, while approximately 20% of the increase was related to increased revenue related to fuel cost increases.

Ground Transportation

Ground transportation revenue for Q2 2021 was $62.3 million, an increase of 57.6%, or approximately $22.8 million, compared with Q2 2020. The increase reflects incremental revenue from our MCI and Skelton acquisitions of approximately $11.9 million, with the remainder attributable to higher volume from our existing client base, and higher fuel costs passed through to customers as a component of our pricing.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for Q2 2021 was $13.4 million, an increase of 116.6%, or approximately $7.2 million, compared with Q2 2020. Approximately $5.8 million of this growth is attributable to incremental revenue from our TDS acquisition, with the remaining increase attributable to route expansion in Western Canada and increases in fuel costs passed on to customers.

Cost of Transportation and Services

Cost of transportation and services for Q2 2021 was $47.3 million, or 44.1% of revenue, compared with $28.5 million, or 40.6% of revenue, for Q2 2020. The higher cost of transportation and services is primarily attributable to an approximate 20% increase in volume in our ATS Healthcare business as compared to Q2 2020, the acquisitions of TDS, MCI and Skelton, and higher fuel costs in line with the increases in revenue related to fuel prices. The increase in the operating ratio for Q2 2021 as compared to Q2 2020 reflects the addition of TDS and MCI cost profiles, which have lower gross transportation margins than ATS Healthcare, partially offset by savings achieved by effectively managing our variable costs with the increased year-over-year volume.

Direct Operating Expenses

Direct operating expenses for Q2 2021 were $21.6 million, or 20.1% of revenue, compared with $17.0 million, or 24.2% of revenue, for Q2 2020. The $4.6 million increase is primarily attributable to our acquisitions (TDS, MCI and Skelton), however these acquisitions – which are included in our specialized transportation segment – have lower facility-related costs in relation to our healthcare logistics segment, which results in a lower direct operating expense operating ratio in Q2 2021 as compared to Q2 2020. 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 Q2 2021, we continued to qualify for the Canada Emergency Wage Subsidy (“CEWS”) program in connection with our packaging operations. We recognize government assistance as a reduction to payroll expense. A total of $0.4 million, or 0.4% of revenue, was recognized as a reduction of direct operating expenses for Q2 2021 for assistance received from the CEWS program compared to $0.8 million, or 1.2% of revenue in Q2 2020. During Q2 2021 we were able to safely ease limitations on the number of associates in our operations, permitting us to gradually restore our operating capacity to near pre-pandemic levels while remaining in compliance with public health guidelines. Accordingly, we currently do not expect to submit applications to receive government assistance under the CEWs program in Q3 2021.

Selling, General and Administrative Expenses

SG&A expenses for Q2 2021 were $9.2 million, or 8.6% of revenue, compared with $6.8 million, or 9.6% of revenue, for Q2 2020. The $2.4 million increase in Q2 2021 as compared to Q2 2020 is primarily attributable to our acquisitions. The increase in SG&A expenses as a percentage of revenue is primarily attributable to share-based compensation expenses of approximately $0.5 million, or 0.4% of revenue, in Q2 2021 as compared to $0.8 million, or 1.1% of revenue, in Q2 2020. 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 to our directors, which are intended to provide further alignment with shareholders.

Depreciation and Amortization

Depreciation and amortization for Q2 2021 was $10.3 million, an increase of 50.1% compared with $6.9 million for Q2 2020. The increase 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, MCI and Skelton acquisitions, and our Brampton, Ontario facility.

Share of Profit of Equity-Accounted Investee

For Q2 2021, our 49% share of total comprehensive income of Skelton USA from the acquisition date was $0.8 million compared with $nil for Q2 2020.

Interest Expense

Interest expense for Q2 2021 was $1.7 million compared with $1.2 million for Q2 2020. Interest expense related to leased facilities and equipment comprises the majority of interest expense; however, $0.5 million of interest expense was incurred in Q2 2021 in connection with the Credit Facilities. Borrowing under our Credit Facilities was increased by $75.0 million in connection with the acquisitions of Skelton and Skelton USA on March 1, 2021. Accordingly, interest expense in connection with debt incurred under our Credit Facilities is expected to increase in Q3 2021 compared with Q3 2020.

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. We intend on reducing amounts drawn on our Revolving Credit Facility with free cash flow from operations. During Q2 2021, we reduced our borrowing under our Revolving Credit Facility by $19.0 million.

Interest Income

Interest income for Q2 2021 and Q2 2020 was negligible. Interest income is generated on our cash and cash equivalents balances and is earned in connection with our sub-lease of a facility to a third party.

Other Income/Expense

Other income/expense was negligible for Q2 2021 and Q2 2020. These amounts are immaterial to our overall performance for these quarters.

Income Tax Expense

Income tax expense for Q2 2021 was $4.9 million compared with $2.8 million for Q2 2020. Our effective tax rate is close to the statutory rate of 26.5% for both Q2 2021 and Q2 2020 after removing the effect of non-deductible share-based compensation expenses.

Operating Income and Net Income and Comprehensive Income

Operating income for Q2 2021 was $18.8 million, an increase of $7.7 million, or 69.5%, compared with $11.1 million for Q2 2020.

Net income and comprehensive income for Q2 2021 increased by 84.7%, or $6.0 million, to $13.1 million, from $7.1 million for Q2 2020. Higher segment net income before eliminations for both our healthcare logistics and specialized transportation operating segments contributed to the increased profitability on a consolidated basis.

EBITDA

EBITDA for Q2 2021 increased by 66.7% to $30.0 million, from $18.0 million for Q2 2020. EBITDA increased over the year due to the factors discussed above and reflects the incremental contributions of our TDS, MCI and Skelton acquisitions.

EBITDA Margin

EBITDA Margin for Q2 2021 was 28.0% compared with 25.6% for Q2 2020. The performance of our two operating segments continues to result in strong and stable EBITDA Margins at the higher end of our historical range. In addition, the Skelton business in Canada has a margin profile at the high end of the specialized transportation segment margin range which positively impacts our overall margin. Inter-segment eliminations have increased with the Skelton acquisition, which has also contributed to our improved EBITDA Margin.

Six months ended June 30, 2021 compared with 2020

The following section provides an overview of our financial performance for YTD 2021 and YTD 2020.

Revenue

Revenue for YTD 2021 increased by 33.6% to $202.9 million compared with YTD 2020. Revenue increases attributable to our acquisitions of TDS, MCI and Skelton accounted for $28.0 million of the $51.0 million increase from YTD 2020 to YTD 2021.

Healthcare Logistics Segment

Revenue in our healthcare logistics segment for YTD 2021 was $68.0 million, an increase of 20.5%, or approximately $11.6 million, compared with YTD 2020. Revenue growth in this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for YTD 2021 was $56.8 million, an increase of 25.5%, or approximately $11.6 million, compared with YTD 2020. A large new logistics and distribution client implementation commenced in July 2020, which is reflected in YTD 2021 revenue growth. Our existing client base contributed approximately $5.4 million, or 11.9%, to YTD 2021 revenue growth.

Packaging Solutions

Packaging revenue for YTD 2021 was $11.2 million, which was unchanged compared with YTD 2020. 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 packaging operations to allow for physical distancing in accordance with public health guidelines which reduced our operating capacity for over a year. During Q2 2021, we were able to safely ease limitations on the number of associates in our operations and to gradually restore our operating capacity to near pre-pandemic levels. Accordingly, revenue in Q2 2021 was 43.6% higher than Q2 2020 which returned YTD 2021 revenue to the same level as YTD 2020.

Specialized Transportation Segment

Revenue in our specialized transportation segment for YTD 2021 was $134.9 million, an increase of 41.3%, or approximately $39.4 million, compared with YTD 2020. Revenue growth in this segment was primarily driven by the factors set out below.

Air Freight Forwarding

Air freight forwarding revenue for YTD 2021 was $13.0 million, an increase of 22.3%, or approximately $2.4 million, compared with YTD 2020. The increase was primarily attributable to volume increases in YTD 2021 as compared to YTD 2020, while approximately 15% of the increase was related to increased revenue related to fuel cost increases in Q2 2021.

Ground Transportation

Ground transportation revenue for YTD 2021 was $115.9 million, an increase of 35.0%, or approximately $30.0 million, compared with YTD 2020. Approximately $14.6 million, or 48.7%, of the increase is attributable to the Skelton acquisition. The remaining increase is attributable to increased volume in our ATS Healthcare business, the MCI acquisition, and fuel-related revenue.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for YTD 2021 was $24.6 million, an increase of 97.7%, or approximately $12.2 million, compared with YTD 2020. Approximately 90% of the increase reflects the acquisition of TDS with the remaining increase attributable to expanded routes for existing clients.

Cost of Transportation and Services

Cost of transportation and services for YTD 2021 was $88.6 million, or 43.7% of revenue, compared with $62.0 million, or 40.8% of revenue, for YTD 2020. The increase in the operating ratio for YTD 2021 as compared to YTD 2020 reflects the addition of TDS and MCI cost profiles, partially offset by savings achieved by effectively managing our variable costs with the increased volume in Q2 2021 as compared to Q2 2020. The increase in cost of transportation and services also reflect increased volume related to ATS Healthcare, the acquisitions of TDS, MCI and Skelton, and higher fuel costs for Q2 2021 in line with the increase in ground transportation revenue related to fuel for Q2 2021.

Direct Operating Expenses

Direct operating expenses for YTD 2021 were $42.2 million, or 20.8% of revenue, compared with $38.6 million, or 25.4% of revenue, for YTD 2020. The $3.6 million increase is primarily attributable to our acquisitions (TDS, MCI and Skelton), however these acquisitions – which are included in our specialized transportation segment – have lower facility-related costs in relation to our healthcare logistics segment which results in a lower direct operating expense operating ratio in YTD 2021 as compared to YTD 2020. 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 YTD 2021, we continued to qualify for the Canada Emergency Wage Subsidy ("CEWS") program in connection with our packaging operations. We recognize government assistance as a reduction to payroll expense. A total of $0.8 million, or 0.4% of revenue, was recognized as a reduction of direct operating expenses for YTD 2021 for assistance received from the CEWS program compared to $0.8 million, or 0.6% of revenue in YTD 2020. During Q2 2021, were able to safely ease limitations on the number of associates in our operations while continuing to allow for physical distancing in accordance with public health guidelines and were able to gradually restore our operating capacity to near pre-pandemic levels. Accordingly, we currently do not expect to submit applications to receive government assistance under the CEWs program in Q3 2021.

Selling, General and Administrative Expenses

SG&A expenses for YTD 2021 were $17.9 million, or 8.8% of revenue, compared with $14.5 million, or 9.5% of revenue, for YTD 2020. The increase in SG&A expenses is primarily attributable to the acquisitions of TDS, MCI and Skelton. SG&A expenses for YTD 2021 include share-based compensation arrangements of approximately $1.0 million, or 0.5% of revenue compared to $1.6 million, or 1.0% of revenue for YTD 2020, which contributed to lower SG&A expenses as a percentage of revenue for YTD 2021 as compared to YTD 2020. These share-based compensation arrangements relate to the initial stock option grants to our directors and senior management team, and deferred share unit grants to our directors, which are intended to provide further alignment with shareholders. A further $0.9 million of cost, or 0.4% of revenue, is included in YTD 2021 SG&A expenses for incremental costs associated with the acquisitions of Skelton and Skelton USA.

Depreciation and Amortization

Depreciation and amortization for YTD 2021 was $18.8 million, an increase of 41.4%, or $5.5 million, compared with $13.3 million for YTD 2020. The acquisition of Skelton accounted for $3.3 million of the increase, with the remaining $2.2 million increase attributable to leases for new right-of-use logistics and transportation equipment to support growth in our specialized transportation segment and our Brampton, Ontario facility.

Other Income/Expense

Other income for YTD 2021 was effectively $nil compared with other expense of effectively $nil for YTD 2020. These amounts are immaterial to our overall performance for these quarters.

Interest Income

Interest income for YTD 2021 was $0.1 million compared with $0.2 million for YTD 2020. Interest income is generated on our cash and cash equivalents balances and is earned in connection with our sub-lease of a facility to a third party.

Interest Expense

Interest expense for YTD 2021 was $3.1 million compared with $2.4 million for YTD 2020. 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 YTD 2021 in connection with the Credit Facilities which were entered into at the time of our IPO and increased in connection with the acquisition of Skelton. We expect to continue to hold debt under the Term Facility, which does not have any repayment schedule except as a single repayment at the end of the term and will incur interest expense on the Term Facility for the duration of the term which concludes on March 1, 2025.

Income Tax Expense

Income tax expense for YTD 2021 was $9.1 million compared with $6.0 million for YTD 2020. Our effective tax rate is close to the statutory rate of 26.5% for both YTD 2021 and YTD 2020 after removing the effect of non-deductible share-based compensation expenses.

Operating Income and Net Income and Comprehensive Income

Operating income for YTD 2021 was $35.5 million, an increase of $12.0 million, or 50.9%, compared with

$23.5 million for YTD 2020.

Net income and comprehensive income for YTD 2021 increased by 62.5%, or $9.5 million, to $24.7 million, from $15.2 million for YTD 2020. Segment net income before eliminations for both our specialized transportation and our healthcare logistics operating segments increased in relation to segment revenue as margins increased in both segments compared with the same periods for the prior year.

EBITDA

EBITDA for YTD 2021 increased by 50.9%, to $55.5 million, from $36.8 million for YTD 2020. The increase in EBITDA was due to the factors discussed above.

EBITDA Margin

EBITDA Margin for YTD 2021 was 27.3%, compared with 24.2% for YTD 2020 and is at the high end of our historical range of expected EBITDA Margins. Operating leverage was created in both of our operating segments as a result of volume growth, the continued management of our variable costs, and through our strategic acquisitions of TDS, MCI and Skelton.

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 (unaudited):

($CAD 000s) except per share data	Q2-21	Q1-21	Q4-20	Q3-20	Q2-20	Q1-20	Q4-19	Q3-19
Total revenue	107,125	95,766	86,632	75,805	70,253	81,650	76,601	70,844
Operating income	18,792	16,663	14,281	13,165	11,089	12,404	11,348	11,319
Net income and comprehensive income	13,051	11,611	13,869	8,596	7,067	8,182	7,075	7,763
Net income and comprehensive income attributed to shareholders of the Company	13,051	11,611	13,869	8,596	7,067	8,182	7,075	7,763
EBITDA	29,973	25,487	21,964	20,190	17,959	18,799	17,729	17,872
Earnings per share – basic(1)	$ 0.34	$ 0.31	$ 0.37	$ 0.23	$ 0.19	$ 0.22	$ 0.19	N/A
Earnings per share - diluted(1)	$ 0.33	$ 0.30	$ 0.36	$ 0.22	$ 0.18	$ 0.22	$ 0.19	N/A

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

Revenue has trended upwards through the past eight quarters with YTD 2021 and Fiscal 2020 reflecting both increased shipping volumes from our clients as well as the impact of price increases which are contractually implemented in both of our operating segments annually or as contracts are renegotiated. Our Q2 2021 volumes in the Specialized Transportation segment were approximately 20% higher than in Q2 2020. 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, Q1 2021 and Q2 2021 includes incremental revenue related to our acquisitions of TDS and MCI in Q4 2020 and our acquisition of Skelton in Q1 2021.

Operating income, net income and comprehensive income, and EBITDA have continued to perform consistently with revenue growth over the past eight 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 our 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 tuck-in acquisitions of TDS and MCI for a purchase price of approximately $15.9 million in cash were funded from existing cash flow from operations. We financed the acquisitions of Skelton and Skelton USA through a combination of cash on hand and by drawing $50 million on our Revolving Credit Facility and $25 million on our Term Facility, and by issuing $25 million of Subordinate Voting Shares to the shareholders of Skelton and Skelton USA. During Q2 2021, we repaid $19 million of the $50 million initially drawn on our Revolving Credit Facility in connection with the Skelton acquisitions.

Working Capital

The following table presents our working capital position as at June 30, 2021 and 2020:

($CAD 000s)	**As At June 30,**	
	2021	**2020**
Cash and cash equivalents	14,364	39,231
Accounts receivable	68,873	46,445
Inventories	1,641	987
Prepaid expenses and other	4,345	3,791
Due from related parties	3,088	227
Revolving credit facility	(31,000)	-
Accounts payable and accrued liabilities	(26,320)	(19,902)
Current portion of lease liabilities	(25,521)	(20,643)
Income taxes payable	(3,257)	(10,188)
Working Capital	**6,483**	**39,948**

As at June 30, 2021, we had working capital of $6.4 million compared to $39.9 million as at June 30, 2020. The $33.5 million decrease in working capital is primarily attributable to the acquisitions of Skelton and Skelton USA. The Revolving Credit Facility has additional capacity and does not have repayment terms (as set out below). We expect to continue to reduce amounts drawn on the Revolving Credit Facility during Fiscal 2021 with excess free cash flow generated from operations, thus we have classified the Revolving Credit

Facility in current liabilities. Other working capital amounts reflect the consolidation of our acquisitions.

Credit Facilities

We entered into credit facilities upon closing of our IPO, comprised of a revolving credit facility (the "Revolving Credit Facility") in the aggregate principal amount of up to $75 million and a term facility (the "Term Facility", and together with the Revolving Credit Facility, the "Credit Facilities") in the aggregate principal amount of up to $25 million. On February 19, 2021, in connection with our anticipated acquisitions of Skelton and Skelton USA, 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. Fees of $0.7 million have been capitalized in connection with the amendment to our Credit Facilities. As at June 30, 2021, the aggregate amount outstanding before financing costs under the Credit Facilities was $50 million under the Term Facility and $31 million 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 of $25 million on closing of the IPO by way of prime rate loans and was subsequently converted to bankers' acceptances and increased by a single Canadian dollar advance of $25 million by way of bankers' acceptances in connection with the Skelton acquisitions.

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 June 30, 2021, 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 Q2 2021 and YTD 2021 were $2.4 million and $3.9 million respectively, compared with $2.5 million and $3.3 million for Q2 2020 and YTD 2020 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 Q2 2021 and YTD 2021 were $1.1 million and $1.4 million respectively, compared with $0.2 million and $0.5 million for Q2 2020 and YTD 2020 respectively. These capital expenditures were funded through cash flows from operations.

Capital Expenditures (Growth)

Growth capital expenditures comprises expenditures on new assets that are intended to grow our productive capacity. These capital expenditures are made to acquire or expand leasehold improvements, transportation and logistics equipment (including pick-up and delivery equipment, warehouse racking, material handling equipment, warehouse automation equipment and specialized logistics equipment such as coolers or vaults, among others), furniture and fixtures, and computer equipment to support new contracts or additional volume from new business. Outlays for growth capital expenditures for Q2 2021 and YTD 2021 were $1.3 million and $2.4 million respectively, compared with $2.3 million and $2.8 million in Q2 2020 and YTD 2020 respectively. Growth capital expenditures 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 Q2 2021 and YTD 2021 primarily comprise leasehold improvements, warehouse racking, material handling equipment, and furniture and fixtures related to our 220,000 square-foot facility in Brampton, Ontario. This new facility was in operation effective July 2020 and was fully outfitted by the end of Q2 2021.

In December 2020, we signed an agreement to implement the Tecsys Itopia® platform, a best-in-class healthcare logistics 'software as a service' platform, to replace our prior warehouse management system ("WMS"). Tecsys Inc. is an industry-leading supply chain management software company, and its technology stack will provide us with enhanced warehouse management and transportation management capabilities as well as end-to-end analytics and business intelligence. Our first client is expected to be live on our new WMS in Fiscal 2022. In Q2 2021 and YTD 2021, we capitalized $0.4 million and $0.8 million respectively to intangible assets in connection with our new WMS.

Cash Flows

The following table presents cash flows for the three and six months ended June 30, 2021 and 2020:

($CAD 000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Cash flows				
Cash from Operating Activities	19,400	18,261	36,213	28,367
Cash (used in) Investing Activities	(2,781)	(2,658)	(88,907)	(3,538)
Cash (used in) from Financing Activities	(26,909)	6,831	37,180	(4,310)
Net change in cash	(10,290)	22,434	(15,514)	20,519
Select cash flow data				
Capital expenditures	(2,434)	(2,457)	(3,865)	(3,326)
Lease payments	(7,490)	(6,028)	(14,474)	(11,689)

Cash Flow Generated From Operating Activities

Cash flows generated from operating activities for Q2 2021 and YTD 2021 totaled $19.4 million and $36.2

million respectively, compared with $18.3 million and $28.4 million for Q2 2020 and YTD 2020 respectively. The increase in cash flows generated from operating activities relates principally to profitable business growth, including profitable growth from acquisitions, reflected in the 50.9% increase in YTD 2021 EBITDA, and normal fluctuations in trade accounts receivable and trade accounts payable.

Cash Flow (Used In) Investing Activities

Cash flows used in investing activities for Q2 2021 and YTD 2021 totaled $2.8 million and $88.9 million respectively, compared with $2.7 million and $3.5 million for Q2 2020 and YTD 2020 respectively. The Skelton and Skelton USA acquisitions comprised a cash outflow of $84.3 million, net of cash acquired, in Q1 2021 with the remaining amounts comprising normal course expenditures on property, plant and equipment and intangible assets.

Cash Flow (Used In) Generated From Financing Activities

Cash flows used in financing activities for Q2 2021 totaled $26.9 million and primarily comprise $19.0 million repayment of borrowing under the Revolving Credit Facility, dividends and payment of leases. In Q2 2020 a loan to the AHG Employee Benefit Plan Trust issued in connection with our IPO was repaid in full resulting in $13.9 million of cash received, offset by lease payments, dividends and a $3.9 million repayment of the Revolving Credit Facility. In YTD 2021, the principal source of cash from financing activities was the aggregate draw of $75.0 million on our Credit Facilities in connection with the Skelton and Skelton USA acquisitions.

Contractual Obligations

As at June 30, 2021, we had the following contractual commitments:

- Outstanding letters of guarantee in the amount of $0.3 million (June 30, 2020 – $0.2 million); and
- Commitments relating to the leasing of fleet equipment, ranging from 66 to 84 months, beginning upon delivery to us of the equipment in Q2 2021, for total lease commitments of $5.4 million (June 30, 2020 – $0.6 million).

Credit facilities

As at June 30, 2021, the aggregate amount outstanding under the Credit Facilities was $50 million under the Term Facility (June 30, 2020 – $25 million) and $31 million under the Revolving Credit Facility (June 30, 2020 – $nil) before capitalized financing costs. 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 businesses. Building lease terms range from five to 10 years, with many leases including optional extension periods. For Q2 2021, facility lease liabilities are calculated using our incremental borrowing rate of 3.74% (Q2 2020 – 3.75%). Equipment lease terms range from one to five years. For Q2 2021, equipment lease liabilities are calculated using our incremental borrowing rate of 3.14% (Q2 2020 – 3.34%) for our specialized transportation segment and 2.57% (Q2 2020 – 2.67%) for our healthcare logistics segment.

The following table summarizes our contractual obligations as at June 30, 2021 based on undiscounted cash flows:

($CAD 000s)	Total	Less than 1 Year	1-5 Years	More than 5 years
Credit facilities	81,000	-	81,000	-
Lease liabilities	147,222	29,583	82,133	35,506
Lease commitments	5,366	826	4,540	-
Other obligations	45,252	29,578	15,674	-
Total contractual obligations	**278,840**	**59,987**	**183,347**	**25,506**

Off-Balance Sheet Arrangements

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

Seasonality

There is no significant seasonality to our business.

Financial Instruments

Financial assets

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

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

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

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

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

Impairment of financial assets

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

For accounts receivable, we apply a simplified approach in calculating expected credit losses ("ECLs"). Therefore, we do not track changes in credit risk but instead recognize a loss allowance based on lifetime

ECLs at each reporting date. We have established a provision matrix that is based on our historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

Financial liabilities

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

Related Party Transactions

Intercompany balances and transactions have been eliminated in our unaudited interim condensed consolidated financial statements for the three and six-month periods ended June 30, 2021 and 2020.

During Q2 2021 and Q2 2020, 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, Andlauer Management Group Inc. ("AMG") holds all of the Multiple Voting Shares of the Company (the "Multiple Voting Shares" and, together with the Subordinate Voting Shares, the "Shares") and 10,200 Subordinate Voting Shares, representing approximately 65.3% of the issued and outstanding Shares and 88.3% 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.

We undertake a limited amount of administrative shared services for AMG. We expect to continue to incur and recover such costs in connection with AMG. For YTD 2021, we charged AMG $49 (YTD 2020 – $6) 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. Accordingly, transactions with TDS and MCI have been eliminated for YTD 2021, but were related party transactions in YTD 2020.

Andlauer Properties and Leasing Inc.

Andlauer Properties and Leasing Inc. ("APLI") is a subsidiary of AMG and leases certain facilities and logistics and transportation equipment to us. We also lease facilities and logistics and transportation equipment from arm's length providers. During YTD 2021, we expensed $1,125 (YTD 2020 - $870) for leases of logistics and transportation equipment; and $885 (YTD 2020 - $709) 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; 80 – 14th Avenue, Hanover, Ontario; 465 Ofield Road South, Dundas, Ontario; 605 Max Brose Drive, London, Ontario; and 5480 61 Avenue SE, Calgary, Alberta. We expect to continue leasing properties and equipment from APLI. For YTD 2021, we charged APLI $9 (YTD 2020 - $10) for recovery of shared services costs.

9143-5271 Québec Inc.

9143-5271 Québec Inc. is a subsidiary of AMG and leases a facility located at 655 Desserte E. Hwy 13, Laval, Québec to AHG. We also lease facilities from arm's length providers. During YTD 2021, we expensed $766 (YTD 2020 - $702) for this building. We expect to continue leasing this property. For YTD 2021, we charged 9143-5271 Québec Inc. $15 (YTD 2020 - $16) for recovery of shared services costs.

Ready Staffing Solutions Inc.

Ready Staffing Solutions Inc. ("RSS"), a company owned by Mr. Andlauer's spouse, provides us with temporary agency employee services – providing hourly dock labour for our handling operations, principally in the Greater Toronto Area. We also purchase temporary agency employee services from arm's length providers. During YTD 2021, we expensed $2,167 (YTD 2020 - $1,985) for purchases of temporary agency employee services from RSS. We expect to continue purchasing temporary agency services from RSS.

1708998 Ontario Limited (Medical Courier Services)

Medical Courier Services ("MCS") is a subsidiary owned 80% by AMG and provides transportation services to us, providing extended reach for shipments where we do not have our own facilities or equipment. During YTD 2021, we expensed $87 (YTD 2020 - $63) for deliveries subcontracted to MCS. We expect to continue subcontracting deliveries to MCS. Similarly, in YTD 2021 we invoiced MCS for $171 (YTD 2020 - $9) for transportation services provided to MCS. For YTD 2021, we charged MCS $6 (YTD 2020 - $6) 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 YTD 2020, we expensed $441 for deliveries subcontracted to MCI and recovered $12 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 YTD 2020, we charged $358 for deliveries subcontracted to us by TDS. During YTD 2020, we also charged TDS $126 for shared services and recovered

$182 in equipment rental charges.

In YTD 2020, TDS also provided transportation services to us, offering us additional capacity where we could subcontract deliveries to take advantage of coincidences of delivery. During YTD 2020, TDS charged us $291 for deliveries subcontracted to it by AHG.

During YTD 2020 we provided TDS with leased facility space, which is a cost recovery for which we recovered $328 of facility lease costs from TDS.

AWA Transportation & Logistics Inc.

AWA Transportation & Logistics Inc. ("AWA") is a subsidiary owned 100% by AMG. AWA provided transportation services to AHG, providing extended reach for shipments where we did not have our own facilities or equipment. We purchased $293 in services for YTD 2020. In Q1 2021, we discontinued purchasing transportation services from 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 $nil in services during YTD 2021 (YTD 2020 - $11). We expect to continue to subcontract deliveries to MEL from time to time.

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

D.C. Racking & Maintenance Inc. ("DCR") and Logiserv Inc. ("Logiserv") are owned by Cameron Joyce, an AHG director. DCR provides warehouse racking installation, maintenance and repairs for our healthcare logistics segment. Logiserv provides us with warehouse racking and racking components as well as warehouse racking installation, maintenance and repairs. We also purchase warehouse racking installation, maintenance and repairs, and warehouse racking and racking components from arm's length providers. During YTD 2021, we expensed $6 (YTD 2020 - $29) for warehouse racking installation, maintenance and repair services provided by DCR and Logiserv. We expect to continue to purchase warehouse racking installation, maintenance and repair services from DCR and Logiserv.

C-GHBS Inc.

C-GHBS Inc. ("C-GHBS") is a subsidiary of AMG and provides air travel services to us. We also purchase air travel services from arm's length providers. During YTD 2021, we purchased $nil (YTD 2020 - $32) from C-GHBS. We expect to continue to purchase air travel services from C-GHBS.

Skelton USA Inc.

AHG acquired a 49% interest in Skelton USA on March 1, 2021. As part of the share purchase agreement, AHG agreed to purchase debt of $3,286 from Skelton USA, comprising 49% of Skelton USA's intercompany borrowings on the date of the acquisition.

Skelton Truck Lines Inc.

Skelton Truck Lines Inc. ("SKINC") is a wholly-owned subsidiary of Skelton USA. SKINC provides specialized 2-8°C transportation services to Skelton in the United States, and Skelton provides specialized 2-8°C transportation services to SKINC in Canada. For the period from March 1, 2021 to June 30, 2021, AHG purchased $221 of transportation services from SKINC and invoiced $703 to SKINC.

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 YTD 2021, we recorded $2,654 (YTD 2020 – $2,698) 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 June 30,**	
	2021	**2020**
Accounts receivable		
TDS Logistics Ltd.	-	143
Andlauer Properties and Leasing Inc.	51	-
McAllister Courier Inc.	-	7
1708998 Ontario Limited (Medical Courier Services)	24	6
Trade receivables due from related parties	75	156
Due from related parties		
Skelton USA Inc.	2,793	-
Skelton Truck Lines Inc.	125	-
Andlauer Management Group Inc.	2	7
Andlauer Properties and Leasing Inc.	168	156
TDS Logistics Ltd.	-	64
	3,088	227
Total due from related parties	**3,163**	**383**
Accounts payable and accrued liabilities		
Ready Staffing Solutions Inc.	112	261
McAllister Courier Inc.	-	54
1708998 Ontario Limited (Medical Courier Services)	14	-
AWA Transportation & Logistics Inc.	-	44
Andlauer Properties and Leasing Inc.	18	-
Andlauer Management Group Inc.	5	-
Logiserv Inc.	2	7
Trade payables due to related parties	151	366
Due to related parties		
Skelton Truck Lines Inc.	77	-
Total due to related parties	**228**	**366**

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 have been described in our audited annual consolidated financial statements for the years ended December 31, 2020 and 2019. Key estimates and assumptions remain consistent with those disclosed in our audited annual consolidated financial statements.

Significant New Accounting Standards

Adopted During the Period

On March 1, 2021, the Company acquired a 49% interest in Skelton USA. Management has determined that it does not control Skelton USA; accordingly, we account for our investment in Skelton USA using the equity method of accounting. Under the equity method of accounting, an equity investment is initially recorded at cost and is subsequently adjusted to reflect the investor's share of the net profit or loss of the associate.

There were no new standards that became effective for periods beginning on or after January 1, 2021 that have a material impact on our unaudited interim condensed consolidated financial statements for YTD 2021.

To be Adopted in Future Periods

The following new standards and amendments to standards are not yet effective for the year ended December 31, 2021, and have not been applied in preparing the unaudited interim condensed consolidated financial statements for YTD 2021:

<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, 2023. 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 our business has not been materially and adversely affected by the COVID-19 pandemic to date, 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 June 30, 2021, the aggregate amount outstanding under the Credit Facilities was $50 million under the Term Facility and $31 million under the Revolving Credit Facility before capitalized financing costs. 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 June 30, 2021, the term facility comprises bankers' acceptances drawn at an interest rate of 1.9%. During YTD 2021 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 August 11, 2021, there were 13,375,379 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 1,463,500 options, each of which can be exercised or settled for one Subordinate Voting Share and 31,271 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 10,200 of the Subordinate Voting Shares, representing approximately 65.3% of the issued and outstanding Shares and 88.3% 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 Q2 2021 dividend, in the amount of $0.05 per Share, was paid on July 15, 2021 for the period beginning on April 1, 2021 and ending on June 30, 2021, to shareholders of record as at June 30, 2021. 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 YTD 2021 that have materially affected, or are reasonably likely to materially affect, our ICFR.

Limitation on Scope of Design

The scope of design of DC&P and ICFR excludes controls, policies and procedures related to Skelton, a business which we acquired on March 1, 2021. Skelton recorded approximately $14.6 million of revenue and approximately $1.7 million of net income for YTD 2021. Summary financial information about Skelton has been consolidated in our unaudited interim condensed consolidated financial statements.

We anticipate that the design of DC&P and ICFR related to Skelton will be completed prior to December 2021, at which time Skelton will be integrated with our existing specialized transportation segment's control environment.

Additional Information

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

Unaudited Interim Condensed Consolidated
Financial Statements of

ANDLAUER HEALTHCARE GROUP INC.

For the three and six months ended June 30, 2021 and 2020

Andlauer Healthcare Group Inc.

Consolidated Balance Sheets

As at June 30, 2021 and December 31, 2020

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

Assets	Note	June 30, 2021	December 31, 2020
Current assets			
Cash and cash equivalents		$ 14,634	$ 30,148
Trade and other receivables		68,873	57,867
Inventories		1,641	1,228
Prepaid expenses and other		4,345	2,830
Due from related parties	18	3,088	381
		92,581	92,454
Non-current assets			
Long-term deposits and other		1,227	810
Property, plant and equipment	6	161,299	118,915
Equity-accounted investee	5	8,742	-
Goodwill and intangible assets	7	124,936	34,479
Deferred income taxes	14	6,618	6,139
Total Assets		**$ 395,403**	**$ 252,797**
Liabilities and Equity			
Current liabilities			
Revolving credit facility	8	$ 31,000	$ -
Accounts payable and accrued liabilities		26,320	25,365
Current portion of lease liabilities	15	25,521	21,197
Income taxes payable		3,257	1,514
		86,098	48,076
Long-term liabilities			
Lease liabilities	15	103,058	83,749
Deferred income taxes	14	15,598	1,978
Due to related parties	18	77	-
Term facility	8	49,154	24,667
Total Liabilities		**253,985**	**158,470**
Equity			
Common share capital	10	575,592	549,662
Contributed surplus	12	4,794	4,448
Merger reserve	2	(488,916)	(488,916)
Retained earnings		49,948	29,133
		141,418	94,327
Commitments and contingencies	17		
Total Liabilities and Equity		**$ 395,403**	**$ 252,797**

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

On behalf of the Board:

"Peter Jelley"
Director

"Thomas G. Wellner"
Director

Andlauer Healthcare Group Inc.

Consolidated Statements of Income and Comprehensive Income

For the three and six months ended June 30, 2021 and 2020

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

	Note	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Revenue	13	**$ 107,125**	**$ 70,253**	**$ 202,891**	**$ 151,903**
Operating Expenses					
Cost of transportation and services		47,257	28,498	88,575	62,038
Direct operating expenses		21,551	17,006	42,189	38,603
Selling, general and administrative expenses		9,182	6,771	17,889	14,487
Depreciation and amortization		10,343	6,889	18,783	13,282
		88,333	59,164	167,436	128,410
Operating Income		**18,792**	**11,089**	**35,455**	**23,493**
Share of profit of equity-accounted investee, net of tax	5	826	-	1,094	-
Interest expense	16	(1,716)	(1,212)	(3,084)	(2,419)
Interest income		36	34	141	186
Other income (expenses)		12	(19)	128	(17)
Income before income taxes		**17,950**	**9,892**	**33,734**	**21,243**
Current income tax expense	14	5,312	3,695	9,921	7,349
Deferred income tax recovery	14	(413)	(870)	(849)	(1,355)
		4,899	2,825	9,072	5,994
Net income and comprehensive income		**$ 13,051**	**$ 7,067**	**$ 24,662**	**$ 15,249**
Net earnings per share:					
Basic earnings per share	11	**$ 0.34**	**$ 0.19**	**$ 0.65**	**$ 0.41**
Diluted earnings per share	11	**$ 0.33**	**$ 0.18**	**$ 0.63**	**$ 0.40**

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

Andlauer Healthcare Group Inc.
Consolidated Statements of Changes in Equity
For the six months ended June 30, 2021 and 2020
(In thousands of Canadian dollars, except shares, share price and earnings per share) (unaudited)

	Attributable to Common Shareholders of the Company					
	Number of shares (thousands) (note 10)	**Share capital** (note 10)	**Merger reserve** (note 2)	**Contributed surplus** (note 12)	**Retained earnings (deficit)**	**Total equity**
Balance at December 31, 2020	37,603	$ 549,662	$ (488,916)	$ 4,448	$ 29,133	$ 94,327
Net income and comprehensive income for the period	-	-	-	-	24,662	24,662
Shares issued in connection with business combination (note 4)	758	25,000	-	-	-	25,000
Transaction costs (note 4)	-	(78)	-	-	-	(78)
Share-based compensation (note 12)	115	1,008	-	346	-	1,354
Dividends (note 10)	-	-	-	-	(3,847)	(3,847)
Balance at June 30, 2021	**38,476**	**$ 575,592**	**$(488,916)**	**$ 4,794**	**$ 49,948**	**$ 141,418**
Balance at December 31, 2019	37,600	$ 549,679	$ (488,916)	$ 1,394	$ (652)	$ 61,505
Net income and comprehensive income for the period	-	-	-	-	15,249	15,249
Share-based compensation (note 12)	-	-	-	1,579	-	1,579
Dividends (note 10)	-	-	-	-	(4,169)	(4,169)
Balance at June 30, 2020	**37,600**	**$ 549,679**	**$(488,916)**	**$ 2,973**	**$ 10,428**	**$ 74,164**

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

Andlauer Healthcare Group Inc.

Consolidated Statements of Cash Flow

For the six months ended June 30, 2021 and 2020

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

	Note	June 30, 2021	June 30, 2020
Operating activities			
Net income for the period		$ 24,662	$ 15,249
Changes not involving cash:			
Depreciation and amortization		18,783	13,282
Adjustment to capitalized financing costs	8	108	56
Share-based compensation	12	928	1,579
Share of equity-accounted investee profit, net of tax	5	(1,094)	-
Deferred income tax recovery	14	(849)	(1,355)
Net gain on derecognition of right-of-use assets	15	(142)	(7)
Loss on disposal of property, plant and equipment		55	-
		42,451	28,804
Changes in non-cash operating working capital:			
Trade and other receivables		(4,927)	4,615
Inventories		38	84
Accounts payable and accrued liabilities		(429)	(5,040)
Income taxes payable		738	1,493
Net change in other operating working capital balances		(1,658)	(1,589)
Cash flows from operating activities		**36,213**	**28,367**
Financing activities			
Dividends	10	(3,847)	(4,169)
Principal repayments on lease liabilities	15	(12,070)	(9,764)
Net change in related party balances		(2,630)	(323)
Loan to employee trust		-	13,875
Proceeds from revolving credit facility	8	50,000	-
Proceeds from term facility	8	25,000	-
Repayment of revolving credit facility	8	(19,000)	(3,929)
Net financing costs on credit facilities	8	(621)	-
Proceeds from issuance of share capital	12	426	-
Transaction costs recorded in share capital	4	(78)	-
Cash flows from (used in) financing activities		**37,180**	**(4,310)**
Investing activities			
Purchase of property, plant and equipment	6	(3,865)	(3,327)
Purchase of intangible assets	7	(750)	(211)
Acquisition of the equity accounted investee	5	(7,648)	-
Business combination, net of cash acquired	4	(76,644)	-
Cash flows used in investing activities		**(88,907)**	**(3,538)**
Net (decrease) increase in cash and cash equivalents		(15,514)	20,519
Cash and cash equivalents, beginning of period		30,148	18,712
Cash and cash equivalents, end of period		**$ 14,634**	**$ 39,231**

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

1. Reporting entity

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

In addition to the shares issued to the public, Andlauer Management Group Inc. ("AMG") holds 25.1 million multiple voting shares and 10,200 subordinate voting shares of AHG, representing approximately 65.3% of the issued and outstanding shares and 88.3% of the voting power attached to all of the shares. AMG is owned and controlled by Michael Andlauer, Chief Executive Officer and a director of AHG.

2. Basis of presentation

a) Statement of compliance

These unaudited interim condensed consolidated financial statements ("consolidated financial statements") have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Under International Financial Reporting Standards (''IFRS''), additional disclosures are required in the annual financial statements and therefore, these consolidated financial statements and accompanying notes should be read in conjunction with the notes to the Company's audited consolidated financial statements for the years ended December 31, 2020 and 2019.

These consolidated financial statements have been prepared using consistent accounting policies and methods used in the preparation of the Company's annual audited consolidated financial statements. Certain comparative information has been reclassified to conform to the current period's presentation. Refer to note 5 which states the Company's accounting policy in connection with an equity-accounted investment made in the current period.

These consolidated financial statements were authorized for issue by the Board of Directors effective August 11, 2021.

b) Basis of measurement

These consolidated financial statements were prepared on a going concern basis under the historical cost method except for share based compensation and business combinations, which were recorded at fair value.

Common control transaction

These consolidated financial statements comprise the results of AHG and Associated Logistics Solutions Inc., Credo Canada Systems Inc., 2186940 Ontario Inc., Skelton Canada Inc., and their respective subsidiaries. Prior to the Company's initial public offering ("IPO") on December 11, 2019, certain of AHG's subsidiaries (Associated Logistics Solutions Inc., Credo Canada Systems Inc., 2186940 Ontario Inc. and their respective subsidiaries at that time – collectively, the "AHG Entities") were owned 100% by AMG. Pursuant to a share purchase agreement between AHG and AMG, and in connection with a corporate reorganization immediately prior to the IPO, AHG acquired a 100% ownership interest in the AHG Entities based on the value of consideration of $577,625. Total net parent investment immediately prior to the IPO was $88,709. A merger reserve of $488,916 is recorded to reflect the difference in carrying value of the net assets acquired and the consideration paid since AHG and the AHG Entities were all related parties under common control of AMG at the time of the acquisition.

2. Basis of presentation (continued)

b) Basis of measurement (continued)

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.

c) Basis of combination

(i) 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.	Ontario
MEDDS Winnipeg – A Medical Delivery Service Corporation	Manitoba
MEDDS Canada – A Medical Delivery Service Corporation[1]	Canada
Nova Pack Ltd.	Ontario
Skelton Canada Inc. [2]	Ontario
TDS Logistics Ltd.	Ontario

1 Entity has been dormant throughout the entire reporting period.
2 Acquired by AHG on March 1, 2021. Refer to note 4.

2. Basis of presentation (continued)

c) Basis of combination (continued)

(ii) Transactions eliminated on consolidation

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

d) Functional and presentation currency

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

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, 2020.

3. Segment reporting

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

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

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

3. Segment reporting (continued)

The following table identifies selected financial data as at June 30, 2021 and 2020 and for the three and six months then ended:

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at June 30, 2021 and for the three months then ended					
Revenue	$ 82,115	$ 34,719	$ 990	$ (10,699)	$ 107,125
Segment income before tax	13,624	4,375	(49)	-	17,950
Interest income	(781)	19	798	-	36
Interest expense	(1,032)	(568)	(116)	-	(1,716)
Depreciation and amortization	(7,281)	(3,062)	-	-	(10,343)
Segment net income	10,047	3,212	(208)	-	13,051
Segment total assets	273,582	127,621	596,657	(602,457)	395,403
Additions of ROU assets	17,679	10,903	-	-	28,582
Capital expenditures	1,866	568	-	-	2,434
Segment total liabilities	201,255	69,730	30,090	(47,090)	253,985
As at June 30, 2020 and for the three months then ended					
Revenue	$ 51,086	$ 25,511	$ 1,200	$ (7,544)	$ 70,253
Segment income before tax	8,515	2,119	(742)	-	9,892
Interest income	21	13	-	-	34
Interest expense	(586)	(487)	(139)	-	(1,212)
Depreciation and amortization	(4,069)	(2,820)	-	-	(6,889)
Segment net income	6,513	1,661	(1,107)	-	7,067
Segment total assets	134,280	105,869	592,380	(604,694)	227,835
Additions of ROU assets	3,211	14,669	-	-	17,880
Capital expenditures	47	2,409	-	-	2,456
Segment total liabilities	74,951	58,024	48,329	(27,633)	153,671

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at June 30, 2021 and for the six months then ended					
Revenue	$ 153,517	$ 67,998	$ 1,890	$ (20,514)	$ 202,891
Segment income before tax	26,364	8,189	(819)	-	33,734
Interest income	(1,558)	93	1,606	-	141
Interest expense	(1,765)	(1,084)	(235)	-	(3,084)
Depreciation and amortization	(12,762)	(6,021)	-	-	(18,783)
Segment net income	19,483	6,034	(855)	-	24,662
Segment total assets	273,582	127,621	596,657	(602,457)	395,403
Additions of ROU assets	31,531	22,260	-	-	53,791
Capital expenditures	2,133	1,732	-	-	3,865
Segment total liabilities	201,255	69,730	30,090	(47,090)	253,985

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

3. Segment reporting (continued)

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at June 30, 2020 and for the six months then ended					
Revenue	$ 108,947	$ 56,422	$ 1,200	$ (14,666)	$ 151,903
Segment income before tax	19,007	5,052	(2,816)	-	21,243
Interest income	139	47	-	-	186
Interest expense	(1,115)	(889)	(415)	-	(2,419)
Depreciation and amortization	(8,069)	(5,213)	-	-	(13,282)
Segment net income	13,943	3,688	(2,382)	-	15,249
Segment total assets	134,280	105,869	592,380	(604,694)	227,835
Additions of ROU assets	5,467	14,669	-	-	20,136
Capital expenditures	136	3,191	-	-	3,327
Segment total liabilities	74,951	58,024	48,329	(27,633)	153,671

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% or revenue.

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

4. Business combination

On March 1, 2021, the Company acquired all of the issued and outstanding shares of Skelton Canada Inc. ("Skelton"), a leading transportation partner to the Canadian pharmaceutical and biologics industry for $107,306, the estimated fair value of the business acquired. The acquisition was financed through a combination of cash on hand, drawing $75,000 on its credit and term facilities and issuing $25,000 of AHG subordinate voting shares to the shareholders of Skelton.

For the period from acquisition on March 1, 2021 to June 30, 2021, Skelton contributed revenue of $14,579 and net income of $1,890 to the Company's financial results, before amortization costs of $1,304 in connection with the intangible assets acquired. If the acquisitions had occurred on January 1, 2021, management estimates that consolidated revenue would have been approximately $212,400 and consolidated net income would have been approximately $25,300. 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, 2021.

During the six months ended June 30, 2021, transaction costs of $746 have been expensed in selling, general and administrative expenses in the consolidated statements of income and comprehensive income and $78 have been charged to share capital in relation to this acquisition.

As of the reporting date, the Company has not completed the measurement of fair value attributable to the identifiable net assets and goodwill of Skelton. Accordingly, the table below sets out the fair values measured on a provisional basis:

Identifiable assets acquired and liabilities assumed	**Note**	**March 1, 2021**
Cash and cash equivalents		$ 5,662
Trade and other receivables		4,590
Inventories		451
Prepaid expenses and other		274
Property, plant and equipment, including ROU assets	6	27,840
Intangible assets	7	39,100
Accounts payable and accrued liabilities		(1,384)
Income taxes payable		(1,005)
Lease liabilities	15	(7,121)
Deferred tax liabilities	14	(13,990)
Total identifiable net assets		54,417
Goodwill	7	52,889
Total consideration transferred		**$ 107,306**

Trade and other receivables comprise gross amounts due of $4,590, all of which were expected to be collectible at the acquisition date.

When measuring the value of property, plant and equipment, the Company considers market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

4. Business combination (continued)

The Company attributes value to the customer relationships maintained by Skelton and to the Skelton brand. The Company recorded intangible assets of $39,100 in connection with customer relationships and the brand which involved estimating the value of future cash flows expected to be generated from existing customers and the discounted estimated royalty payments that are expected to be avoided as a result of the brand being owned. The customer relationships and brand are definite life intangible assets each of which will be amortized over 10 years.

The goodwill is principally attributable to the premium of an established business operation with a strong reputation in healthcare transportation, and the synergies expected to be achieved from integrating Skelton into the Company's existing business. Goodwill arising from this business combination has been allocated to the Specialized Transportation segment.

Of the goodwill and intangible assets acquired through this business combination, $nil is deductible for tax purposes.

5. Equity-accounted investee

On March 1, 2021, the Company acquired a 49% interest in Skelton USA Inc. ("Skelton USA"), a private domestic U.S. dedicated healthcare carrier specialized in 2-8°C cold-chain transportation for pharmaceuticals for cash consideration of $7,648. Management has determined that it does not control Skelton USA; accordingly, the Company accounts for its investment in Skelton USA using the equity method of accounting. As part of the shareholders' agreement, the Company has an option to acquire the remaining 51% of Skelton USA in the future.

Under the equity method of accounting, an equity investment is initially recorded at cost and is subsequently adjusted to reflect the investor's share of the net profit or loss of the associate. The Company's 49% share of total comprehensive income for the three and six months ended June 30, 2021 was $826 and $1,094 respectively.

During the six months ended June 30, 2021, transaction costs of $165 have been expensed in selling, general and administrative expenses in the consolidated statements of income and comprehensive income in relation to this investment.

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

6. 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, 2020	$ 125,355	$ 8,092	$ 18,353	$ 96,936	$ 248,736
Additions	22,942	131	530	8,844	32,447
Additions through business combinations (note 4)	2,860	49	968	23,963	27,840
Dispositions	(4,233)	-	-	(73)	(4,306)
Balance at June 30, 2021	$ 146,924	$ 8,272	$ 19,851	$ 129,670	$ 304,717
Accumulated depreciation					
Balance at December 31, 2020	$ 53,871	$ 6,363	$ 9,209	$ 60,378	$ 129,821
Depreciation for the period	7,552	182	1,131	7,636	16,501
Dispositions	(2,886)	-	-	(18)	(2,904)
Balance at June 30, 2021	$ 58,537	$ 6,545	$ 10,340	$ 67,996	$ 143,418
Net carrying amounts					
At December 31, 2020	$ 71,484	$ 1,729	$ 9,144	$ 36,558	$ 118,915
At June 30, 2021	$ 88,387	$ 1,727	$ 9,511	$ 61,674	$ 161,299

[1] Facilities and certain logistics and transportation equipment assets are ROU assets, capitalized in accordance with IFRS 16. Refer to note 15.

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

7. Goodwill and intangible assets

	Goodwill	Customer relationships	Brand	Software	Total
Cost					
Balance at December 31, 2020	$ 25,866	$ 29,848	$ -	$ 6,026	$ 61,740
Additions	-	-	-	750	750
Additions through business combinations (note 4)	52,889	27,900	11,200	-	91,989
Balance at June 30, 2021	$ 78,755	$ 57,748	$ 11,200	$ 6,776	$ 154,479
Accumulated amortization					
Balance at December 31, 2020	$ -	$ 22,910	$ -	$ 4,351	$ 27,261
Amortization for the period	-	1,662	372	248	2,282
Balance at June 30, 2021	$ -	$ 24,572	$ 372	$ 4,599	$ 29,543
Net carrying amounts					
At December 31, 2020	$ 25,866	$ 6,938	$ -	$ 1,675	$ 34,479
At June 30, 2021	$ 78,755	$ 33,176	$ 10,828	$ 2,177	$ 124,936

8. Credit facilities

	June 30, 2021	December 31, 2020
Revolving credit facility	$ 31,000	$ -
Term facility	50,000	25,000
	81,000	25,000
Less: financing costs	(846)	(333)
Credit facilities	**$ 80,154**	**$ 24,667**

Recorded in the consolidated balance sheets as follows:

	June 30, 2021	December 31, 2020
Revolving credit facility	$ 31,000	$ -
Term facility	49,154	24,667
Credit facilities	**$ 80,154**	**$ 24,667**

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

8. Credit facilities (continued)

The movement in credit facilities from December 31, 2020 is as follows:

		Credit Facilities
Balance at December 31, 2020	$	24,667
Changes from financing cash flows		
Issuance of borrowings – revolving credit facility		50,000
Issuance of borrowings – term facility		25,000
		99,667
Less: financing costs		(621)
		99,046
Repayment of revolving credit facility		(19,000)
		80,046
Non-cash movements		
Adjustment to capitalized financing costs		108
Balance at June 30, 2021	**$**	**80,154**

The Company is party to credit facilities with a syndicate of lenders. The credit facilities are comprised of (i) a revolving credit facility in the aggregate principal amount of up to $100,000 and (ii) a term credit facility in the aggregate principal amount of up to $50,000.

The credit facilities are available to be drawn in Canadian dollars by way of prime rate loans, bankers' acceptances and letters of credit, and in U.S. dollars by way of base rate loans, LIBOR based loans and letters of credit, in each case, plus the applicable margin in effect from time to time. At June 30, 2021, the credit facilities comprises bankers' acceptances drawn at an interest rate of 1.9% (December 31, 2020 – 1.9%).

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

The credit facilities are subject to customary negative covenants and include financial covenants requiring the Company to maintain at all times a maximum net leverage ratio and a minimum interest coverage ratio, tested on a quarterly basis. At June 30, 2021, 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 March 1, 2025. There is no repayment schedule for either the revolving credit facility or 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 three and six months ended June 30, 2021 was $446 and $681 (2020 – $139 and $414 respectively).

9. 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 its credit facilities (refer to note 8). The Company believes that the carrying amount of each of these items is a reasonable approximation of fair value.

As the credit facilities bear interest at a floating rate subject to fluctuations in the bank prime rate the carrying value of the debt approximates fair value.

10. 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 10,200 subordinate voting shares are owned by the Company's parent, AMG. The following table summarizes the number of common shares issued:

	Number of common shares (in thousands)			Share capital (in thousands of dollars)		
	Multiple voting common shares	Subordinate voting common shares	Total common shares	Multiple voting common shares	Subordinate voting common shares	Total share capital
Balance at December 31, 2020	25,100	12,503	37,603	$ 376,500	$ 173,162	$ 549,662
Shares issued in connection with business combination (note 4)	-	758	758	-	25,000	25,000
Transaction costs (note 4)	-	-	-	-	(78)	(78)
Shares issued in connection with the exercise of options (note 12)	-	115	115	-	1,008	1,008
Balance at June 30, 2021	**25,100**	**13,376**	**38,476**	**$ 376,500**	**$ 199,092**	**$ 575,592**

Dividends to subordinate voting and multiple voting shareholders

During the six months ended June 30, 2021, the Company declared total dividends of $3,847 (2020 – $4,169), or $0.05 ($0.06087 for the period from incorporation to March 31, 2020; and $0.05 for the three months ended June 30, 2020) per common share, on subordinate voting and multiple voting shares. Included in accounts payable and accrued liabilities as at June 30, 2021 is $1,924 (June 30, 2020 – $1,880) for dividends payable on July 15, 2021 and 2020 respectively, to common shareholders of record on June 30, 2021 and 2020 respectively.

11. Earnings per share

Basic earnings per share

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

(in thousands of dollars and number of shares)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Net income	$ 13,051	$ 7,067	$ 24,662	$ 15,249
Weighted average number of common shares	38,468	37,600	38,183	37,600
Earnings per share – basic	**$ 0.34**	**$ 0.19**	**$ 0.65**	**$ 0.41**

Diluted earnings per share

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

(in thousands of dollars and number of shares)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Net income	$ 13,051	$ 7,067	$ 24,662	$ 15,249
Weighted average number of common shares	38,468	37,600	38,183	37,600
Dilutive effects:				
Stock options	826	739	862	591
Deferred share units	27	11	25	5
Weighted average number of diluted common shares	39,321	38,350	39,070	38,196
Earnings per share – diluted	**$ 0.33**	**$ 0.18**	**$ 0.63**	**$ 0.40**

12. Share-based payment arrangements

Stock option plan (equity-settled)

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

On December 11, 2019 the Board of Directors approved a grant of 1.65 million options, of which 162 thousand options were exercised during the six months ended June 30, 2021. Of the options outstanding at June 30, 2021, a total of 682 thousand are held by non-executive directors; 300 thousand are held by executive officers; with the remaining 482 thousand held by management personnel.

12. Share-based payment arrangements (continued)

Stock option plan (equity-settled) (continued)

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:

	June 30, 2021			June 30, 2020		
(in thousands of options and in dollars)	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Opening balance	1,644	$	15.00	1,650	$	15.00
Granted	-		-	-		-
Exercised	(162)		15.00	-		-
Forfeited	(18)		-	-		-
Ending balance	1,464	$	15.00	1,650	$	15.00
Options exercisable	**507**	**$**	**15.00**	**350**	**$**	**15.00**

The Company recognized compensation expense of $308 and $616 for the three and six months ended June 30, 2021 respectively (2020 – $593 and $1,186 respectively), with corresponding increases to contributed surplus in connection with the vesting of options issued at the time of the initial public offering.

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

12. Share-based payment arrangements (continued)

Stock option plan (equity-settled) (continued)

During the six months ended June 30, 2021, 162 thousand options were exercised. A total of 138 thousand options were exercised on a cashless basis and 24 thousand were exercised on a cash basis resulting in 115 thousand subordinate voting common shares being issued from treasury and in the surrender of 47 thousand options used to fund the cashless option exercise. The cash-based exercise resulted in proceeds of $364 and a corresponding increase in share capital. The volume weighted average price used to calculate the cashless exercises in accordance with the Company's Omnibus Equity Incentive Plan was between $40.95 and $41.16 per share at the time of exercises resulting in a $579 increase in share capital after the proceeds from the sale of 27 thousand shares on behalf of employees were used to fund their withholding taxes. When options are exercised, the option value that was originally recognized is transferred from contributed surplus to share capital. The transfer of the option value of the options exercised resulted in a $582 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 three and six months ended June 30, 2021, the Company recognized a compensation expense of $156 and $312 respectively, with corresponding increases to contributed surplus (June 30, 2020 – $155 and $393 respectively).

The table below summarizes the changes in the outstanding DSUs:

(thousands of DSUs)	**June 30, 2021**	**June 30, 2020**
Opening balance	23	-
Granted	8	15
Outstanding at June 30	**31**	**15**

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

13. Revenue

Disaggregation of revenue from contracts with customers

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

Major products/service lines	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Logistics and distribution	$ 29,153	$ 21,660	$ 56,781	$ 45,227
Packaging solutions	5,566	3,851	11,217	11,195
Healthcare Logistics segment	**34,719**	**25,511**	**67,998**	**56,422**
Ground transportation	62,269	39,504	115,852	85,833
Air freight forwarding	6,434	5,390	13,035	10,655
Dedicated and last mile delivery	13,412	6,192	24,630	12,459
Intersegment revenue	(9,709)	(6,344)	(18,624)	(13,466)
Specialized Transportation segment	**72,406**	**44,742**	**134,893**	**95,481**
Total revenue	**$ 107,125**	**$ 70,253**	**$ 202,891**	**$ 151,903**

14. Income taxes

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

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Current income tax expense:				
Current taxes on income for the reporting period	$ 5,048	$ 3,695	$ 9,657	$ 7,349
Current taxes referring to previous periods and other adjustments	264	-	264	-
	5,312	3,695	9,921	7,349
Deferred income tax recovery:				
Deferred tax provision on loss for the period	(340)	-	(372)	-
Origination and reversal of temporary differences	(9)	(870)	(413)	(1,355)
Deferred taxes referring to previous periods and other adjustments	(153)	-	(153)	-
Deductible temporary differences not recognized	89	-	89	-
	(413)	(870)	(849)	(1,355)
Income tax expense reported to the statements of income and comprehensive income	**$ 4,899**	**$ 2,825**	**$ 9,072**	**$ 5,994**

Total cash outflow for actual taxes paid for the three and six months ended June 30, 2021 was $7,007 and $9,164 respectively (2020 – $2,331 and $6,096 respectively).

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

14. Income taxes (continued)

b) **Reconciliation of effective tax rate**

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Income before income taxes	$ 17,950	$ 9,892	$ 33,734	$ 21,243
Consolidated Canadian federal and provincial income tax rate	26.5%	26.5%	26.5%	26.5%
Income tax expense based on statutory rate	4,757	2,621	8,940	5,629
(Decrease) increase in income taxes resulting from non-deductible (non-taxable) items or other adjustments	(37)	204	(47)	365
Impact of varying statutory tax rates of subsidiaries	(21)	-	(21)	-
Deductible temporary differences not recognized	89	-	89	-
Taxes relating to previous periods and other adjustments	111	-	111	-
Total income tax expense	**$ 4,899**	**$ 2,825**	**$ 9,072**	**$ 5,994**

Deferred taxes

	June 30, 2021	December 31, 2020
Deferred tax assets	$ 6,618	$ 6,139
Deferred tax liabilities	(15,598)	(1,978)
Net deferred tax (liability) asset	**$ (8,980)**	**$ 4,161**

c) **Movement in deferred tax balances**

	June 30, 2021	Recognized in income or loss	Acquired in business combina-tions (note 4)	December 31, 2020
Plant and equipment	$ (6,076)	$ 491	$ (5,515)	$ (1,052)
Accounts payable and accrued liabilities	492	39	-	453
Intangibles	(10,842)	605	(10,362)	(1,085)
Deductions deferred for tax purposes	1,675	372	-	1,303
Leases	3,214	(157)	1,887	1,484
Finance costs	2,557	(501)	-	3,058
Net deferred tax (liability) asset	**$ (8,980)**	**$ 849**	**$ (13,990)**	**$ 4,161**

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

14. Income taxes (continued)

c) **Movement in deferred tax balances (continued)**

	December 31, 2020	Recognized in income or loss	Acquired in business combina-tions	June 30, 2020
Plant and equipment	$ (1,052)	$ (474)	$ (59)	$ (519)
Accounts payable and accrued liabilities	453	81	-	372
Intangibles	(1,085)	141	(1,935)	709
Deductions (income) deferred for tax purposes	1,303	1,818	-	(515)
Leases	1,484	292	159	1,033
Finance costs	3,058	3,058	-	-
Net deferred tax asset (liability)	**$ 4,161**	**$ 4,916**	**$ (1,835)**	**$ 1,080**

	June 30, 2020	Recognized in income or loss	December 31, 2019
Plant and equipment	$ (519)	$ -	$ (519)
Accounts payable and accrued liabilities	372	104	268
Intangibles	709	-	709
(Income) deductions deferred for tax purposes	(515)	981	(1,496)
Leases	1,033	270	763
Net deferred tax asset (liability)	**$ 1,080**	**$ 1,355**	**$ (275)**

d) **Non-capital loss carryforwards**

The Company recognized deferred tax assets in connection with certain losses for the current period on the basis that it will have sufficient future taxable profit.

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.

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

15. Leases

The Company leases buildings and equipment in the operation of its Transportation and Logistics businesses. The Company is required to estimate the incremental borrowing rates used to discount lease liabilities if the interest rate implicit in the lease is not readily determined. The Company estimates its incremental borrowing rates for portfolios of leases with similar characteristics, such as similar risk profiles, same or similar types of security, and similar lease terms. Building lease terms range from 5 to 10 years. Facilities lease liabilities are calculated using the Company's incremental borrowing rate based on the specific lease commitments and term for each facility. The average incremental borrowing rate for facilities for the six months ended June 30, 2021 is 3.74% (year ended December 31, 2020 – 2.99%). Equipment lease terms range from 1 to 5 years. Equipment lease liabilities are calculated using the operating segment's average incremental borrowing rate on an equipment lease portfolio basis for that period. The average incremental borrowing rate for equipment for the six months ended June 30, 2021 is 3.14% for Specialized Transportation and 2.57% for Healthcare Logistics (year ended December 31, 2020 – 3.11% for Specialized Transportation; 2.70% for Healthcare Logistics).

Right-of-use assets – Facilities	**As at and for the six months ended June 30, 2021**	**As at and for the year ended December 31, 2020**
Opening balance	$ 71,484	$ 56,285
Add: additions	22,942	28,724
Add: additions through business combinations	2,860	-
Less: derecognition	(1,347)	(185)
Less: depreciation	(7,552)	(13,340)
Ending balance	**$ 88,387**	**$ 71,484**

Right-of-use assets – Logistics and transportation equipment	**As at and for the six months ended June 30, 2021**	**As at and for the year ended December 31, 2020**
Opening balance	$ 27,256	$ 28,018
Add: additions	5,640	8,048
Add: additions through business combinations	8,175	588
Less: derecognition	-	(183)
Less: depreciation	(5,171)	(9,215)
Ending balance	**$ 35,900**	**$ 27,256**

Net carrying amounts of right-of-use assets included in property, plant and equipment	**June 30, 2021**	**December 31, 2020**
Facilities	$ 88,387	$ 71,484
Logistics and transportation equipment	35,900	27,256
Balance	**$ 124,287**	**$ 98,740**

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

15. Leases (continued)

Lease liabilities – Facilities	**As at and for the six months ended June 30, 2021**	**As at and for the year ended December 31, 2020**
Opening balance	$ 77,676	$ 60,948
Add: additions	22,942	28,724
Add: additions through business combinations	2,860	-
Add: interest expense	1,827	2,813
Less: derecognition	-	(212)
Less: principal repayments	(6,604)	(11,784)
Less: interest payments	(1,827)	(2,813)
Ending balance	**$ 96,874**	**$ 77,676**

Lease liabilities – Logistics and transportation equipment	**As at and for the six months ended June 30, 2021**	**As at and for the year ended December 31, 2020**
Opening balance	$ 27,270	$ 27,765
Add: additions	5,640	8,048
Add: additions through business combinations	4,261	599
Add: interest expense	576	1,117
Less: derecognition	-	(190)
Less: principal repayments	(5,466)	(8,952)
Less: interest payments	(576)	(1,117)
Ending balance	**$ 31,705**	**$ 27,270**

Cash lease principal payments	**Six months ended June 30, 2021**	**Year ended December 31, 2020**
Repayments of lease principal	$ (12,070)	$ (20,736)
Total lease payments	**$ (12,070)**	**$ (20,736)**

Lease liabilities	**June 30, 2021**	**December 31, 2020**
Facilities	$ (96,874)	$ (77,676)
Logistics and transportation equipment	(31,705)	(27,270)
Balance	**$ (128,579)**	**$ (104,946)**

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

15. Leases (continued)

Lease liabilities included in consolidated balance sheets	**June 30, 2021**	**December 31, 2020**
Current	$ (25,521)	$ (21,197)
Non-current	(103,058)	(83,749)
Balance	**$ (128,579)**	**$ (104,946)**

Maturity analysis for lease liabilities – contractual undiscounted cash flows	**June 30, 2021**	**December 31, 2020**
Less than one year	$ 29,583	$ 24,720
One to 5 years	82,133	71,506
More than 5 years	35,506	21,678
Total undiscounted lease liabilities	**$ 147,222**	**$ 117,904**

Amounts recognized in the consolidated statements of income and comprehensive income in connection with interest expense for lease liabilities for the three and six months ended June 30, 2021 was $1,270 and $2,403 respectively (June 30, 2020 – $1,044 and 1,925 respectively). Total cash outflow for leases for the three and six months ended June 30, 2021 was $7,491 and $14,474 respectively (June 30, 2020 – $6,028 and $11,689 respectively).

Net Investment Lease	**As at and for the six months ended June 30, 2021**
Opening balance	$ -
Add: additions	1,489
Add: interest received	17
Less: payments received	(350)
Less: interest income	(17)
Ending balance	**$ 1,139**

During the three and six months ended June 30, 2021 the Company sub-leased a facility to a third party that had previously been classified as a right-of-use asset. The Company derecognized net book value of $1,347 from right-of-use assets and established a net investment lease of $1,489 resulting in a net gain of $142 included in other income in connection with this facility. The current portion of $714 in connection with this net investment lease is included in trade and other receivables. The long-term portion of $425 is recorded in long-term deposits and other. The Company recognized $17 of interest income for the six months ended June 30, 2021.

The table below sets out the current and long-term portions of the net investment lease:

Maturity analysis for net investment lease receivable – contractual undiscounted cash flows	**June 30, 2021**
Less than one year	$ 734
One to 5 years	428
More than 5 years	-
Total undiscounted net investment lease receivable	**$ 1,162**

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

16. Interest expense

Interest expense recognized in income and comprehensive income	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Leases	$ 1,270	$ 1,044	$ 2,403	$ 1,925
Term facility	446	139	681	414
Other	-	29	-	80
Total interest expense	**$ 1,716**	**$ 1,212**	**$ 3,084**	**$ 2,419**

Interest expense recognized in the consolidated statements of income and comprehensive income equates to total interest paid for the periods ended June 30, 2021 and 2020.

17. 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 June 30, 2021, the Company had outstanding letters of guarantee in the amount of $340 (December 31, 2020 – $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 72 to 84 months and total $5,366 (December 31, 2020 – $9,211).

18. Related parties

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

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

The Company recovers certain facilities lease costs from Andlauer Management Group Inc. ("AMG"). The Company also provides certain shared services (primarily accounting services) to AMG.

Effective October 1, 2020, the Company acquired all of the issued and outstanding shares of TDS Logistics Ltd. and McAllister Courier Inc. from AMG. Accordingly, revenue and expense transactions in connection with TDS and MCI for the three and six-month periods ending June 30, 2020 comprise related party transactions.

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

18. Related parties (continued)

AHG acquired a 49% interest in Skelton USA on March 1, 2021 (note 5) which wholly owns Skelton Truck Lines Inc. ("SKINC"). SKINC provides specialized 2-8°C transportation services to Skelton Canada Inc. in the United States, and Skelton Canada Inc. provides specialized 2-8°C transportation services to SKINC in Canada. Transactions with SKINC have been included in related party transactions in the tables below for the period from March 1, 2021 to June 30, 2021.

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Revenue				
Transportation services				
TDS Logistics Ltd.	$ -	$ 176	-	$ 358
1708998 Ontario Limited (Medical Courier Services)	91	6	171	9
Skelton Truck Lines Inc.	320	-	703	-
Facility rent recovery				
TDS Logistics Ltd.	-	164	-	328
Shared service recovery				
TDS Logistics Ltd.	-	63	-	126
Andlauer Properties and Leasing Inc.	4	5	9	10
Andlauer Management Group Inc.	32	3	49	6
9143-5271 Quebec Inc.	7	8	15	16
1708998 Ontario Limited (Medical Courier Services)	3	3	6	6
Equipment rental recovery				
TDS Logistics Ltd.	-	91	-	182
McAllister Courier Inc.	-	9	-	12
Expenses				
Transportation services				
McAllister Courier Inc.	-	209	-	441
1708998 Ontario Limited (Medical Courier Services)	50	17	87	63
TDS Logistics Ltd.	-	103	-	291
AWA Transportation & Logistics Inc.	-	219	-	293
Med Express Ltd.	-	9	-	11
Skelton Truck Lines Inc.	120	-	221	-
Contract labour services				
Ready Staffing Solutions Inc.	1,145	915	2,167	1,985
Equipment rent				
Andlauer Properties and Leasing Inc.	549	464	1,125	870
Facility rent				
Andlauer Properties and Leasing Inc.	442	354	885	709
9143-5271 Quebec Inc.	383	383	766	702
Maintenance services				
D.C. Racking and Maintenance Inc. and Logiserv Inc.	3	3	6	29
Travel services				
C-GHBS Inc.	-	-	-	32

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

18. Related parties (continued)

	June 30, 2021	December 31, 2020
Trade receivables due from related parties		
AWA Transportation Services & Logistics Inc.	$ -	$ 1
Andlauer Properties and Leasing Inc.	51	20
1708998 Ontario Limited (Medical Courier Services)	24	3
Total trade receivables	75	24
Due from related parties		
Andlauer Management Group Inc.	2	10
Andlauer Properties and Leasing Inc.	168	371
Skelton USA	2,793	-
Skelton Truck Lines Inc.	125	-
	3,088	381
Total due from related parties	**$ 3,163**	$ 405

Trade payables due to related parties		
Ready Staffing Solutions Inc.	$ 112	$ 23
1708998 Ontario Limited (Medical Courier Services)	14	-
Andlauer Properties and Leasing Inc.	18	18
Andlauer Management Group Inc.	5	24
Logiserv Inc.	2	21
	151	86
Due to related parties		
Skelton Truck Lines Inc.	77	-
Total due to related parties	**$ 228**	**$ 86**

Key management personnel

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

Key management personnel compensation comprised the following:

Key management compensation	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Salaries and benefits	$ 774	$ 801	$ 1,636	$ 1,622
Share-based payment arrangements	308	342	616	683
Director deferred share units	156	155	312	393
Total key management compensation	**$ 1,238**	**$ 1,298**	**$ 2,564**	**$ 2,698**

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

19. Capital management

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

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

	June 30, 2021	December 31, 2020
Revolving credit facility	$ 31,000	$ -
Total lease liabilities	128,579	104,946
Term facility	49,154	24,667
Less: cash and cash equivalents	(14,634)	(30,148)
Net debt	194,099	99,465
Last twelve months' net income	47,127	37,714
Last twelve months' interest income	(240)	(285)
Last twelve months' interest expense	5,260	4,595
Last twelve months' income tax expense	11,944	8,866
Last twelve months' depreciation and amortization	33,523	28,022
EBITDA	97,614	78,912
Net leverage ratio	1.99	1.26

20. 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.

20. 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 until September 25, 2021 and provides a wage subsidy for entities that have experienced revenue declines over the comparable period in the prior year. During the three and six months ended June 30, 2021, the Company recorded a $399, and $887 respectively, 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 July 3, 2021 and recorded a receivable of $117 as at June 30, 2021. It is uncertain whether the Company will continue to qualify for CEWS assistance in the future.