Andlauer
HEALTHCARE GROUP

Q3 2021 REPORT

A VITAL LINK IN HEALTHCARE

ANDLAUER HEALTHCARE GROUP INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

for the three and nine-month periods ended September 30, 2021 and 2020

November 10, 2021

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

This management's discussion and analysis of financial condition and results of operations ("MD&A") for the three and nine-month periods ended September 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 nine-month periods ended September 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 November 10, 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 "Q3 2021" are to the three months ended September 30, 2021; "Q3 2020" are to the three months ended September 30, 2020; "Q2 2021" are to the three months ended June 30, 2021; "Q2 2020" are for 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; "YTD 2021 are to the nine months ended September 30, 2021; YTD 2020 are to the nine months ended September 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 nine-month periods ended September 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 Q3 2021, YTD 2021, Q3 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.

On November 1, 2021, we acquired 100% of T.F. Boyle Transportation, Inc. ("Boyle Transportation"), which provides specialized transportation services to clients in the life sciences and government/defense sectors, and 51% of Skelton USA, increasing our aggregate ownership of Skelton USA to 100%. Boyle Transportation and Skelton USA will join our comprehensive platform of dedicated healthcare supply chain solutions and will continue to be led by their respective executive leadership teams.

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.

Q3 2021 Compared to Q3 2020

Select highlights include the following:

- Revenue increased 37.5% to $104.2 million, compared to $75.8 million in Q3 2020;
- Operating income increased 27.6% to $16.8 million, compared to $13.2 million in Q3 2020;
- Net income and comprehensive income increased 41.8% to $12.2 million, compared to $8.6 million in Q3 2020;
- EBITDA increased 38.8% to $28.0 million, compared to $20.2 million in Q3 2020;
- EBITDA Margin was 26.9%, compared to 26.6% in Q3 2020;
- During Q3 2021 we continued to provide 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 Q3 2021, our COVID-19 vaccine-related revenue comprised approximately 2.5% of total revenue compared with approximately 5.0% in Q2 2021; and
- We continued our business continuity incident response management in connection with the ongoing COVID-19 pandemic and successfully maintained service levels while proactively implementing measures across our operations to prioritize the health and safety of our personnel, clients, and suppliers.

YTD 2021 Compared to YTD 2020

Select highlights include the following:

- Revenue increased 34.9% to $307.1 million, compared to $227.7 million in YTD 2020;
- Approximately 3.9% of YTD 2021 total revenue was derived from our clients that are involved in the Canadian supply of COVID-19 vaccines
- Operating income increased 42.5% to $52.3 million, compared to $36.7 million in YTD 2020;
- Net income and comprehensive income increased 54.5% to $36.9 million, compared to $23.8 million in YTD 2020;
- EBITDA increased 46.6% to $83.5 million, compared to $56.9 million in YTD 2020; and
- EBITDA Margin was 27.2% in YTD 2021, compared to 25.0% in YTD 2020.

Subsequent to Q3 2021

- On October 26, 2021, together with Andlauer Management Group Inc. (the "Selling Shareholder"), we completed a bought deal offering of 3.5 million Subordinate Voting Shares at a price of $48.20 per Subordinate Voting Share for aggregate gross proceeds of $168.7 million (the "Offering"). The Offering was comprised of 2.0 million Subordinate Voting Shares issued from treasury and offered by AHG for gross proceeds of $96.4 million, which we used to pay the cash portion of the purchase price payable in connection with the acquisitions of Boyle Transportation and Skelton USA discussed further below, and 1.5 million Subordinate Voting Shares offered by the Selling Shareholder, for gross proceeds to the Selling Shareholder of $72.3 million; and
- On November 1, 2021, we acquired 100% of Boyle Transportation and 51% of Skelton USA, increasing our aggregate ownership of Skelton USA to 100%. These acquisitions enhance our platform with expanded U.S. domestic specialized temperature-controlled capabilities and broaden our strategic entry into the U.S. market.

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, also operates autonomously, as it did prior to the acquisition. We expect that Boyle Transportation and Skelton USA, which we acquired on November 1, 2021 and which will be reported on in future periods, will also continue to operate autonomously. Over time, as we grow, our operating segments may change. If this occurs, we will reflect the change in our reporting practices.

Except for tractors and 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. Following the acquisition, management determined that it did not control Skelton USA; accordingly, we have accounted 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. On November 1, 2021, we acquired the remaining 51% of Skelton USA. Accordingly, for future periods, Skelton USA will be consolidated with AHG from the acquisition date forward in accordance with IFRS 10.

Interest Income

Interest income comprises interest earned on cash and cash equivalents. In Q3 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

<u>EBITDA</u>

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

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

<u>EBITDA Margin</u>

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

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

Selected Consolidated Financial Information

The following table summarizes our results of operations for the periods indicated. The selected consolidated financial information for Q3 2021, Q3 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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue				
Logistics & distribution	28,953	25,682	85,734	70,909
Packaging solutions	4,504	4,261	15,721	15,456
Healthcare Logistics segment	33,457	29,943	101,455	86,365
Ground transportation	60,750	42,946	176,602	128,779
Air freight forwarding	6,155	5,736	19,190	16,391
Dedicated and last mile delivery	13,348	6,357	37,978	18,816
Intersegment revenue	(9,511)	(9,177)	(28,135)	(22,643)
Specialized Transportation segment	70,742	45,862	205,635	141,343
Total revenue	**104,199**	**75,805**	**307,090**	**227,708**
Operating expenses				
Cost of transportation and services	47,501	30,812	136,076	92,850
Direct operating expense	21,393	17,996	63,582	56,599
Selling, general and administrative expenses	8,259	6,816	26,148	21,303
Depreciation & amortization	10,250	7,016	29,033	20,298
	87,403	62,640	254,839	191,050
Operating income	**16,796**	**13,165**	**52,251**	**36,658**
Share of profit of equity-accounted investee, net of tax	1,004	-	2,098	-
Interest expense	(1,570)	(1,146)	(4,654)	(3,565)
Interest income	25	60	166	246
Other income (expense)	(24)	9	104	(8)
Income tax expense	(4,043)	(3,492)	(13,115)	(9,486)
Net income and comprehensive income attributable to Shareholders of the Company	**12,188**	**8,596**	**36,850**	**23,845**
Earnings per share – basic	$ 0.32	$ 0.23	$ 0.96	$ 0.63
Earnings per share – diluted	$ 0.31	$ 0.22	$ 0.94	$ 0.62
Select financial metrics				
EBITDA	28,026	20,190	83,486	56,948
EBITDA Margin	26.9%	26.6%	27.2%	25.0%

Consolidated Balance Sheets

($CAD 000s)	As at September 30,	
	2021	2020
Select financial position data		
Total assets	395,999	240,788
Total non-current liabilities	163,073	103,839

Consolidated Statements of Changes in Equity

($CAD 000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Select financial data				
Dividends	1,924	1,880	5,771	6,049

Reconciliation of Non-IFRS Measures

The following table provides a reconciliation of net income and comprehensive income for Q3 2021 and Q3 2020:

($CAD 000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income and comprehensive income	**12,188**	**8,596**	**36,850**	**23,845**
Income tax expense	4,043	3,492	13,115	9,486
Interest expense	1,570	1,146	4,654	3,565
Interest income	(25)	(60)	(166)	(246)
Depreciation & amortization	10,250	7,016	29,033	20,298
EBITDA	**28,026**	**20,190**	**83,486**	**56,948**

Results of Operations

Three months ended September 30, 2021 compared with 2020

The following section provides an overview of our financial performance for Q3 2021 compared to Q3 2020.

Revenue

Revenue for Q3 2021 increased by 37.5% to $104.2 million, compared with $75.8 million in Q3 2020. Our TDS, MCI and Skelton acquisitions accounted for approximately $18.2 million of the $28.4 million increase with the remaining growth attributable to organic growth as described below.

Healthcare Logistics Segment

Revenue in our healthcare logistics segment for Q3 2021 was $33.5 million, an increase of 11.7%, or approximately $3.5 million, compared with Q3 2020. The increase in revenue for this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for Q3 2021 was $29.0 million, an increase of 12.7%, or approximately $3.3 million, compared with Q3 2020. The increase reflects greater inbound product volume, storage and outbound handling activities.

Packaging Solutions

Packaging revenue for Q3 2021 was $4.5 million, an increase of 5.7%, or approximately $0.2 million, compared with Q3 2020. However, packaging revenue for Q3 2021 remained approximately $0.2 million, or 4.2%, below Q3 2019 revenue. We expect that revenue for this product may not fully recover all of its reduced or deferred business until the consumption of consumer healthcare products returns to pre-pandemic levels.

Specialized Transportation Segment

Revenue in our specialized transportation segment for Q3 2021 was $70.7 million, an increase of 54.2%, or approximately $24.9 million, compared with Q3 2020. Revenue growth in this segment was primarily driven by the factors set out below.

Air Freight Forwarding

Air freight forwarding revenue for Q3 2021 was $6.2 million, an increase of 7.3%, or approximately $0.4 million, compared with Q3 2020. The increase was primarily attributable to increased revenue related to fuel cost increases, as volume in Q3 2021 was consistent with Q3 2020.

Ground Transportation

Ground transportation revenue for Q3 2021 was $60.8 million, an increase of 41.5%, or approximately $17.8 million, compared with Q3 2020. The increase reflects incremental revenue from our MCI and Skelton acquisitions of approximately $12.3 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 Q3 2021 was $13.3 million, an increase of 110.0%, or approximately $7.0 million, compared with Q3 2020. Approximately $5.9 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 Q3 2021 was $47.5 million, or 45.6% of revenue, compared with $30.8 million, or 40.6% of revenue, for Q3 2020. The higher cost of transportation and services is primarily attributable to an approximate 7.4% increase in volume in our ATS Healthcare business as compared to Q3 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 Q3 2021 as compared to Q3 2020 reflects the addition of our TDS, MCI and Skelton acquisitions, which have increased the relative proportion of our specialized transportation segment as a percentage of our total consolidated revenue and cost profiles.

Direct Operating Expenses

Direct operating expenses for Q3 2021 were $21.4 million, or 20.5% of revenue, compared with $18.0 million, or 23.7% of revenue, for Q3 2020. The $3.4 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 compared to our healthcare logistics segment, which results in a lower direct operating expense operating ratio in Q3 2021 as compared to Q3 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 Q3 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 $0.3 million, or 0.3% of revenue, was recognized as a reduction of direct operating expenses for Q3 2021 for assistance received from the CEWS program compared to $0.9 million, or 1.2% of revenue in Q3 2020. The final period for government assistance under the existing CEWS program concluded on October 23, 2021. It is uncertain whether we will continue to qualify for CEWS or other government assistance programs in connection with the COVID-19 pandemic for the remainder of Fiscal 2021.

Selling, General and Administrative Expenses

SG&A expenses for Q3 2021 were $8.3 million, or 7.9% of revenue, compared with $6.8 million, or 9.0% of revenue, for Q3 2020. The $1.5 million increase in Q3 2021 is primarily attributable to our acquisitions (TDS, MCI and Skelton) and approximately $0.3 million of professional fees related to the Boyle Transportation acquisition, partially offset by a $0.3 million reduction in the costs attributable to share-based compensation expenses related to our IPO. The decrease in SG&A expenses as a percentage of revenue reflects operating leverage generated within SG&A functions compared to revenue growth.

Depreciation and Amortization

Depreciation and amortization for Q3 2021 was $10.3 million, an increase of 46.1% compared with $7.0 million for Q3 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 Q3 2021, our 49% share of total comprehensive income of Skelton USA was $1.0 million compared with $nil for Q3 2020.

Interest Expense

Interest expense for Q3 2021 was $1.6 million compared with $1.1 million for Q3 2020. Interest expense related to leased facilities and equipment comprises the majority of interest expense; however, $0.4 million of interest expense was incurred in Q3 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 increased by approximately $0.3 million 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 until maturity on March 1, 2025. We intend to reduce amounts drawn on our Revolving Credit Facility with free cash flow from operations. During Q3 2021, we reduced our borrowing under our Revolving Credit Facility by $11.0 million.

Interest Income

Interest income for Q3 2021 and Q3 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 Q3 2021 and Q3 2020. This amount is immaterial to our overall performance for Q3 2021

Income Tax Expense

Income tax expense for Q3 2021 was $4.0 million compared with $3.5 million for Q3 2020. Our effective tax rate is close to the statutory rate of 26.5% for both Q3 2021 and Q3 2020 after removing the effect of non-deductible share-based compensation expenses and the inclusion of the share of profit of our equity-accounted investee, net of tax.

Operating Income and Net Income and Comprehensive Income

Operating income for Q3 2021 was $16.8 million, an increase of $3.6 million, or 27.6%, compared with $13.2 million for Q3 2020.

Net income and comprehensive income for Q3 2021 increased by 41.8%, or $3.6 million, to $12.2 million, from $8.6 million for Q3 2020. Higher segment net income before eliminations for both our healthcare logistics and specialized transportation operating segments, and a $1.0 million contribution from our 49% interest in Skelton USA contributed to the increased profitability on a consolidated basis.

EBITDA

EBITDA for Q3 2021 increased by 38.8% to $28.0 million, from $20.2 million for Q3 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 Q3 2021 was 26.9% compared with 26.6% for Q3 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.

Nine months ended September 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 34.9% to $307.1 million compared with YTD 2020. Revenue increases attributable to our acquisitions of TDS, MCI and Skelton accounted for $46.2 million of the $79.4 million increase from YTD 2020 to YTD 2021.

Healthcare Logistics Segment

Revenue in our healthcare logistics segment for YTD 2021 was $101.5 million, an increase of 17.5%, or approximately $15.1 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 $85.7 million, an increase of 20.9%, or approximately $14.8 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 $8.1 million, or 11.4%, to YTD 2021 revenue growth.

Packaging Solutions

Packaging revenue for YTD 2021 was $15.7 million, an increase of 1.7% 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 and Q3 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. Revenue in Q2 2021 increased by 43.6% compared to Q2 2020, however, revenue in Q3 2021 was not significantly higher than Q3 2020, resulting in an increase of approximately $0.2 million for YTD 2021compared with YTD 2020.

Specialized Transportation Segment

Revenue in our specialized transportation segment for YTD 2021 was $205.6 million, an increase of 45.5%, or approximately $64.3 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 $19.2 million, an increase of 17.1%, or approximately $2.8 million, compared with YTD 2020. The increase was primarily attributable to volume increases in YTD 2021 as compared to YTD 2020, while approximately 27% of the increase was related to increased revenue related to fuel cost increases in Q3 2021.

Ground Transportation

Ground transportation revenue for YTD 2021 was $176.6 million, an increase of 37.1%, or approximately $47.8 million, compared with YTD 2020. Approximately $25.5 million, or 53.3%, 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 $38.0 million, an increase of 101.8%, or approximately $19.2 million, compared with YTD 2020. Approximately 87% of the increase reflects the acquisition of TDS with the remaining increase attributable to expanded routes for existing clients.

<u>Cost of Transportation and Services</u>

Cost of transportation and services for YTD 2021 was $136.1 million, or 44.3% of revenue, compared with $92.9 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 our TDS, MCI and Skelton acquisitions, which have increased the relative proportion of our specialized transportation segment and related costs as a percentage of our total consolidated revenue and cost profiles, partially offset by savings achieved by effectively managing our variable costs with an approximate 12% volume increase in YTD 2021 as compared to YTD 2020. The increase in cost of transportation and services also reflects higher fuel costs for YTD 2021 in line with the increase in ground transportation revenue related to fuel for YTD 2021.

Direct Operating Expenses

Direct operating expenses for YTD 2021 were \$63.6 million, or 20.7% of revenue, compared with \$56.6 million, or 24.9% of revenue, for YTD 2020. The \$7.0 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 compared 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 \$1.1 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 \$1.7 million, or 0.8% of revenue in YTD 2020. The final period for government assistance under the existing CEWS program concluded on October 23, 2021. It is uncertain whether we will continue to qualify for CEWS or other government assistance programs in connection with the COVID-19 pandemic for the remainder of Fiscal 2021.

Selling, General and Administrative Expenses

SG&A expenses for YTD 2021 were \$26.1 million, or 8.5% of revenue, compared with \$21.3 million, or 9.4% 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 \$1.4 million, or 0.5% of revenue compared with \$2.3 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 \$1.2 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, Skelton USA, and Boyle Transportation.

Depreciation and Amortization

Depreciation and amortization for YTD 2021 was \$29.0 million, an increase of 43.0%, or \$8.7 million, compared with \$20.3 million for YTD 2020. The acquisition of Skelton accounted for \$5.7 million of the increase, with the remaining \$3.0 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 approximately $0.1 million compared with other expense of effectively $nil for YTD 2020. This amount is immaterial to our overall performance for YTD 2021.

Interest Income

Interest income was $0.2 million for both YTD 2021 and 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 $4.7 million compared with $3.6 million for YTD 2020. Interest expense related to leased facilities and equipment comprises the significant majority of interest expense; however, $1.0 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 until maturity on March 1, 2025.

Income Tax Expense

Income tax expense for YTD 2021 was $13.1 million compared with $9.5 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 and the share of profit of our equity-accounted investee, net of tax.

Operating Income and Net Income and Comprehensive Income

Operating income for YTD 2021 was $52.3 million, an increase of $15.6 million, or 42.5%, compared with $36.7 million for YTD 2020.

Net income and comprehensive income for YTD 2021 increased by 54.5%, or $13.0 million, to $36.9 million, from $23.8 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. YTD 2021 net income and comprehensive income includes $2.1 million comprising the share of profit of our equity-accounted investee, net of tax.

EBITDA

EBITDA for YTD 2021 increased by 46.6%, to $83.5 million, from $56.9 million for YTD 2020. The increase in EBITDA was due to the factors discussed above.

EBITDA Margin

EBITDA Margin for YTD 2021 was 27.2%, compared with 25.0% for YTD 2020 and is at the higher end of our historical range of 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	Q3-21	Q2-21	Q1-21	Q4-20	Q3-20	Q2-20	Q1-20	Q4-19
Total revenue	104,199	107,125	95,766	86,632	75,805	70,253	81,650	76,601
Operating income	16,796	18,792	16,663	14,281	13,165	11,089	12,404	11,348
Net income and comprehensive income	12,188	13,051	11,611	13,869	8,596	7,067	8,182	7,075
Net income and comprehensive income attributed to shareholders of the Company	12,188	13,051	11,611	13,869	8,596	7,067	8,182	7,075
EBITDA	28,026	29,973	25,487	21,964	20,190	17,959	18,799	17,729
Earnings per share – basic	$ 0.32	$ 0.34	$ 0.31	$ 0.37	$ 0.23	$ 0.19	$ 0.22	$ 0.19
Earnings per share - diluted	$ 0.31	$ 0.33	$ 0.30	$ 0.36	$ 0.22	$ 0.18	$ 0.22	$ 0.19

Revenue in Q3 2021 was slightly lower than Q2 2021 revenue as approximately 50% of our YTD 2021 activity related to COVID-19 vaccines occurred in Q2 2021. Notwithstanding the foregoing, 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 Q3 2021 volumes in the Specialized Transportation segment were approximately 12% higher than in Q3 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, and YTD 2021 includes incremental revenue related to our strategic acquisitions of TDS and MCI in Q4 2020 and 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 the initial 51% of 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 and Q3 2021, we repaid $30 million of the $50 million initially drawn on our Revolving Credit Facility in connection with the Skelton acquisitions.

On November 1, 2021, we completed the acquisitions of 100% of Boyle Transportation and 51% of Skelton USA, increasing our aggregate ownership of Skelton USA to 100%. The aggregate purchase price for the acquisition of Boyle Transportation was approximately US$80 million, of which US$60 million was paid in cash and US$20 million was satisfied by issuing 522,116 Subordinate Voting Shares to the shareholders of Boyle. The aggregate purchase price for the acquisition of the remaining 51% interest in Skelton USA was approximately $50 million, of which $25 million was paid in cash and $25 million was satisfied by issuing 518,672 Subordinate Voting Shares to the shareholders of Skelton USA. The cash portion of the purchase price for each acquisition was funded through the Offering, pursuant to which AHG issued 2.0 million Subordinate Voting Shares from treasury for gross proceeds of $96.4 million, with the remaining amounts funded from existing cash flow from operations.

Working Capital

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

($CAD 000s)	**As at September 30,**	
	2021	**2020**
Cash and cash equivalents	14,313	48,545
Accounts receivable	76,861	50,101
Inventories	1,768	890
Prepaid expenses and other	3,845	3,340
Due from related parties	2,501	88
Revolving credit facility	(20,000)	-
Accounts payable and accrued liabilities	(30,397)	(24,429)
Current portion of lease liabilities	(25,667)	(20,791)
Income taxes payable	(4,716)	(10,102)
Working Capital	**18,508**	**47,642**

As at September 30, 2021, we had working capital of $18.5 million compared with $47.6 million as at September 30, 2020. The $29.1 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 September 30, 2021, the aggregate amount outstanding before financing costs under the Credit Facilities was $50 million under the Term Facility and $20 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 September 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 Q3 2021 and YTD 2021 were $1.3 million and $5.1 million respectively, compared with $0.8 million and $4.1 million for Q3 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 Q3 2021 and YTD 2021 were $0.4 million and $1.9 million respectively, compared with $0.4 million and $1.0 million for Q3 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 Q3 2021 and YTD 2021 were $0.8 million and $3.3 million respectively, compared with $0.3 million and $3.1 million in Q3 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 Q3 2021 relate primarily to the purchase of tractors and trailers by Skelton. Growth capital expenditures for 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 Q3 2021 and YTD 2021, we capitalized $0.2 million and $1.0 million, respectively, to intangible assets in connection with our new WMS.

Cash Flows

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

($CAD 000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Cash flows				
Cash from Operating Activities	19,529	17,120	55,742	45,487
Cash (used in) Investing Activities	(1,470)	(702)	(90,377)	(4,240)
Cash (used in) from Financing Activities	(18,380)	(7,104)	18,800	(11,414)
Net change in cash	(321)	9,314	(15,835)	29,833
Select cash flow data				
Capital expenditures	(1,263)	(761)	(5,128)	(4,087)
Lease payments	(7,454)	(6,420)	(21,927)	(18,109)

Cash Flow Generated From Operating Activities

Cash flows generated from operating activities for Q3 2021 and YTD 2021 totaled $19.5 million and $55.7 million respectively, compared with $17.1 million and $45.5 million for Q3 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 46.6% 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 Q3 2021 and YTD 2021 totaled $1.5 million and $90.4 million respectively, compared with $0.7 million and $4.2 million for Q3 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 Q3 2021 totaled $18.4 million and primarily comprise $11.0 million repayment of borrowing under the Revolving Credit Facility, dividends of $1.9 million and payment of leases of $7.5 million offset by an increase in amounts due from Skelton USA. 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 offset by dividends, lease payments and a repayment of $30.0 million on our Revolving Credit Facility. In YTD 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.

Contractual Obligations

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

- Outstanding letters of guarantee in the amount of $0.3 million (September 30, 2020 – $0.2 million); and
- Commitments relating to the leasing of fleet equipment, ranging from 72 to 84 months, beginning upon delivery to us of the equipment in Q4 2021, for total lease commitments of $10.0 million (September 30, 2020 – $2.5 million).

Credit facilities

As at September 30, 2021, the aggregate amounts outstanding under the Credit Facilities were $50 million under the Term Facility (September 30, 2020 – $25 million) and $20 million under the Revolving Credit Facility (September 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 Q3 2021, facility lease liabilities are calculated using our incremental borrowing rate of 3.66% (Q3 2020 – 2.99%). Equipment lease terms range from one to five years. For Q3 2021, equipment lease liabilities are calculated using our incremental borrowing rate of 3.13% (Q3 2020 – 3.15%) for our specialized transportation segment and 2.66% (Q3 2020 – 2.67%) for our healthcare logistics segment.

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

($CAD 000s)	Total	Less than 1 Year	1-5 Years	More than 5 years
Credit facilities	70,000	-	70,000	-
Lease liabilities	138,880	29,427	80,601	28,852
Lease commitments	9,996	1,538	8,458	-
Other obligations	50,237	35,113	15,124	-
Total contractual obligations	**269,113**	**66,078**	**174,183**	**28,852**

Off-Balance Sheet Arrangements

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

Seasonality

There is no significant seasonality to our business.

Financial Instruments

Financial assets

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

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

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

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

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

Impairment of financial assets

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

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

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

Financial liabilities

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

Related Party Transactions

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

During Q3 2021 and Q3 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 56.9% of the issued and outstanding Shares and 84.1% 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 $62 (YTD 2020 – $9) for recovery of shared services costs.

Effective October 1, 2020, we acquired all of the issued and outstanding shares of TDS Logistics Ltd. and McAllister Courier Inc. from AMG. 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 $1,713 (YTD 2020 - $1,342) for leases of logistics and transportation equipment; and $1,328 (YTD 2020 - $1,067) 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 $14 (YTD 2020 - $15) 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 $1,149 (YTD 2020 - $1,085) for this building. We expect to continue leasing this property. For YTD 2021, we charged 9143-5271 Québec Inc. $23 (YTD 2020 - $24) 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 $3,492 (YTD 2020 - $2,983) 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 $128 (YTD 2020 - $113) for deliveries subcontracted to MCS. We expect to continue subcontracting deliveries to MCS. Similarly, in YTD 2021 we invoiced MCS for $282 (YTD 2020 - $15) for transportation services provided to MCS. For YTD 2021, we charged MCS $10 (YTD 2020 - $9) 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 $682 for deliveries subcontracted to MCI and recovered $21 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 $534 for deliveries subcontracted to us by TDS. During YTD 2020, we also charged TDS $189 for shared services and recovered $273 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 $469 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 $492 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 $546 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 $5 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 $18 (YTD 2020 - $46) 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 $53 (YTD 2020 - $164) 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 $3,247 from Skelton USA, comprising 49% of Skelton USA's intercompany borrowings on the date of the acquisition. Since March 1, 2021, Skelton USA has repaid $1,250 of the intercompany debt. Effective November 1, we acquired the remaining 51% interest in Skelton USA, at which time Skelton USA became a wholly-owned subsidiary of the Company.

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 September 30, 2021, AHG purchased $300 of transportation services from SKINC and invoiced $1,086 to SKINC. Effective November 1, we acquired the remaining 51% interest in Skelton USA, at which time SKINC became a wholly-owned subsidiary of the Company.

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 $3,449 (YTD 2020 – $3,995) related to key management personnel salaries and benefits, share-based compensation, and director fees.

Due from/to related parties

The charts below summarize amounts due to or from related parties.

($CAD 000s)	**As at September 30,**	
	2021	**2020**
Accounts receivable		
AWA Transportation Services	-	16
TDS Logistics Ltd.	-	203
Andlauer Properties and Leasing Inc.	63	-
McAllister Courier Inc.	-	3
Med Express Ltd.	-	1
1708998 Ontario Limited (Medical Courier Services)	55	10
Trade receivables due from related parties	118	233
Due from related parties		
Skelton USA Inc.	1,997	-
Skelton Truck Lines, Inc.	499	-
Andlauer Management Group Inc.	5	-
Andlauer Properties and Leasing Inc.	-	50
TDS Logistics Ltd.	-	38
Due from related parties	2,501	88
Total due from related parties	**2,619**	**321**

($CAD 000s)	As at September 30,	
	2021	2020
Accounts payable and accrued liabilities		
Ready Staffing Solutions Inc.	301	149
McAllister Courier Inc.	-	51
TDS Logistics Ltd.	-	88
1708998 Ontario Limited (Medical Courier Services)	24	-
Andlauer Properties and Leasing Inc.	36	120
9143-5271 Quebec Inc.	12	-
Andlauer Management Group Inc.	1	-
Logiserv Inc.	13	-
C-GHBS Inc.	60	27
Trade payables due to related parties	447	435
Due to related parties		
Andlauer Management Group Inc.	-	70
Andlauer Properties and Leasing Inc.	126	-
Skelton Truck Lines, Inc.	154	-
Due to related parties	280	70
Total due to related parties	**727**	**505**

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. Following the acquisition, management determined that it did not control Skelton USA; accordingly, we have accounted 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. On November 1, 2021, we acquired the remaining 51% of Skelton USA. Accordingly, for future periods, Skelton USA will be consolidated with AHG from the acquisition date forward in accordance with IFRS 10.

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 September 30, 2021, the aggregate amounts outstanding under the Credit Facilities were $50 million under the Term Facility and $20 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 September 30, 2021, the Credit Facilities comprise 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 November 10, 2021, there were 17,920,359 Subordinate Voting Shares issued and outstanding, 23,600,000 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 1,457,250 options, each of which can be exercised or settled for one Subordinate Voting Share and 34,407 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 56.9% of the issued and outstanding Shares and 84.1% of the voting power attached to all of the Shares.

Subject to financial results, capital requirements, available cash flow, corporate law requirements and any other factors that our board of directors may consider relevant, we expect to declare a quarterly dividend on the Subordinate Voting Shares and Multiple Voting Shares equal to approximately $0.05 per share on an ongoing basis. Our Q3 2021 dividend, in the amount of $0.05 per Share, was paid on October 15, 2021 for the period beginning on July 1, 2021 and ending on September 30, 2021, to shareholders of record as at September 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 of DC&P and the design of ICFR.

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

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

Disclosure Controls and Procedures

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

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

Internal Controls Over Financial Reporting

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

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

Changes in Internal Controls Over Financial Reporting

No changes were made to our ICFR during 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 $24.5 million of revenue and approximately $3.5 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 nine months ended September 30, 2021 and 2020

Andlauer Healthcare Group Inc.

Consolidated Balance Sheets

As at September 30, 2021 and December 31, 2020

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

Assets	**Note**	**September 30, 2021**	**December 31, 2020**
Current assets			
Cash and cash equivalents		$ 14,313	$ 30,148
Trade and other receivables	18	76,861	57,867
Inventories		1,768	1,228
Prepaid expenses and other		3,845	2,830
Due from related parties	18	2,501	381
		99,288	92,454
Non-current assets			
Long-term deposits and other		1,035	810
Property, plant and equipment	6	155,788	118,915
Equity-accounted investee	5	9,746	-
Goodwill and intangible assets	7	123,712	34,479
Deferred income taxes	14	6,430	6,139
Total Assets		**$ 395,999**	**$ 252,797**
Liabilities and Equity			
Current liabilities			
Revolving credit facility	8	$ 20,000	$ -
Accounts payable and accrued liabilities	18	30,397	25,365
Current portion of lease liabilities	15	25,667	21,197
Income taxes payable		4,716	1,514
		80,780	48,076
Long-term liabilities			
Lease liabilities	15	98,728	83,749
Deferred income taxes	14	14,844	1,978
Due to related parties	18	280	-
Term facility	8	49,221	24,667
Total Liabilities		**243,853**	**158,470**
Equity			
Common share capital	10	575,614	549,662
Contributed surplus	12	5,236	4,448
Merger reserve	2	(488,916)	(488,916)
Retained earnings		60,212	29,133
		152,146	94,327
Commitments and contingencies	17		
Subsequent events	21		
Total Liabilities and Equity		**$ 395,999**	**$ 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 nine months ended September 30, 2021 and 2020

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

	Note	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Revenue	13	**$ 104,199**	**$ 75,805**	**$ 307,090**	**$ 227,708**
Operating Expenses					
Cost of transportation and services		47,501	30,812	136,076	92,850
Direct operating expenses		21,393	17,996	63,582	56,599
Selling, general and administrative expenses		8,259	6,816	26,148	21,303
Depreciation and amortization		10,250	7,016	29,033	20,298
		87,403	62,640	254,839	191,050
Operating Income		**16,796**	**13,165**	**52,251**	**36,658**
Share of profit of equity-accounted investee, net of tax	5	1,004	-	2,098	-
Interest expense	16	(1,570)	(1,146)	(4,654)	(3,565)
Interest income		25	60	166	246
Other income (expenses)		(24)	9	104	(8)
Income before income taxes		**16,231**	**12,088**	**49,965**	**33,331**
Current income tax expense	14	4,609	4,078	14,530	11,427
Deferred income tax recovery	14	(566)	(586)	(1,415)	(1,941)
		4,043	3,492	13,115	9,486
Net income and comprehensive income		**$ 12,188**	**$ 8,596**	**$ 36,850**	**$ 23,845**
Net earnings per share:					
Basic earnings per share	11	**$ 0.32**	**$ 0.23**	**$ 0.96**	**$ 0.63**
Diluted earnings per share	11	**$ 0.31**	**$ 0.22**	**$ 0.94**	**$ 0.62**

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

Andlauer Healthcare Group Inc.

Consolidated Statements of Changes in Equity

For the nine months ended September 30, 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**	**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	-	-	-	-	36,850	36,850
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)	119	1,030	-	788	-	1,818
Dividends (note 10)	-	-	-	-	(5,771)	(5,771)
Balance at September 30, 2021	**38,480**	**$ 575,614**	**$ (488,916)**	**$ 5,236**	**$ 60,212**	**$ 152,146**
Balance at December 31, 2019	37,600	$ 549,679	$ (488,916)	$ 1,394	$ (652)	$ 61,505
Net income and comprehensive income for the period	-	-	-	-	23,845	23,845
Share-based compensation (note 12)	-	-	-	2,326	-	2,326
Dividends (note 10)	-	-	-	-	(6,049)	(6,049)
Balance at September 30, 2020	**37,600**	**$ 549,679**	**$(488,916)**	**$ 3,720**	**$ 17,144**	**$ 81,627**

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

Andlauer Healthcare Group Inc.

Consolidated Statements of Cash Flow

For the nine months ended September 30, 2021 and 2020

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

	Note	September 30, 2021	September 30, 2020
Operating activities			
Net income for the period		$ 36,850	$ 23,845
Changes not involving cash:			
Depreciation and amortization		29,033	20,298
Amortization of capitalized financing costs	8	175	84
Share-based compensation	12	1,392	2,326
Share of profit of equity-accounted investee, net of tax	5	(2,098)	-
Deferred income tax recovery	14	(1,415)	(1,941)
Net gain on derecognition of right-of-use assets	15	(142)	(34)
Loss on disposal of property, plant and equipment		72	-
		63,867	44,578
Changes in non-cash operating working capital:			
Trade and other receivables		(12,915)	959
Inventories		(89)	181
Accounts payable and accrued liabilities		3,648	(513)
Income taxes payable		2,197	1,407
Net change in other operating working capital balances		(966)	(1,125)
Cash flows from operating activities		**55,742**	**45,487**
Financing activities			
Dividends	10	(5,771)	(6,049)
Principal repayments on lease liabilities	15	(18,316)	(15,197)
Net change in related party balances		(1,840)	(114)
Loan to employee trust		-	13,875
Proceeds from revolving credit facility	8	50,000	(3,929)
Proceeds from term facility	8	25,000	-
Repayment of revolving credit facility	8	(30,000)	-
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		**18,800**	**(11,414)**
Investing activities			
Purchase of property, plant and equipment	6	(5,128)	(4,087)
Proceeds on disposal of property, plant and equipment		33	-
Purchase of intangible assets	7	(990)	(153)
Acquisition of the equity accounted investee	5	(7,648)	-
Business combination, net of cash acquired	4	(76,644)	-
Cash flows used in investing activities		**(90,377)**	**(4,240)**
Net (decrease) increase in cash and cash equivalents		(15,835)	29,833
Cash and cash equivalents, beginning of period		30,148	18,712
Cash and cash equivalents, end of period		**$ 14,313**	**$ 48,545**

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 88.2% 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 for the year ended December 31, 2020. 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 November 10, 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 September 30, 2021 and 2020 and for the three and nine months then ended:

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at September 30, 2021 and for the three months then ended					
Revenue	$ 80,253	$ 33,457	$ 945	$ (10,456)	$ 104,199
Segment income before tax	12,817	3,598	(184)	-	16,231
Interest income	(789)	15	799	-	25
Interest expense	(903)	(550)	(117)	-	(1,570)
Depreciation and amortization	(7,234)	(3,016)	-	-	(10,250)
Segment net income	9,751	2,654	(217)	-	12,188
Segment total assets	272,161	130,702	596,580	(603,444)	395,999
Additions of ROU assets	1,955	107	-	-	2,062
Capital expenditures	1,046	217	-	-	1,263
Segment total liabilities	190,083	70,157	31,690	(48,077)	243,853
As at September 30, 2020 and for the three months then ended					
Revenue	$ 55,039	$ 29,943	$ 600	$ (9,777)	$ 75,805
Segment income before tax	10,346	2,896	(1,154)	-	12,088
Interest income	31	9	20	-	60
Interest expense	(542)	(481)	(123)	-	(1,146)
Depreciation and amortization	(4,085)	(2,931)	-	-	(7,016)
Segment net income	7,574	2,136	(1,114)	-	8,596
Segment total assets	141,596	113,249	593,684	(607,741)	240,788
Additions of ROU assets	894	5,676	-	-	6,570
Capital expenditures	240	520	-	-	760
Segment total liabilities	74,693	63,269	51,919	(30,720)	159,161

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

3. Segment reporting (continued)

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at September 30, 2021 and for the nine months then ended					
Revenue	$ 233,770	$ 101,455	$ 2,835	$ (30,970)	$ 307,090
Segment income before tax	39,181	11,787	(1,003)	-	49,965
Interest income	(2,347)	108	2,405	-	166
Interest expense	(2,668)	(1,634)	(352)	-	(4,654)
Depreciation and amortization	(19,996)	(9,037)	-	-	(29,033)
Segment net income	29,234	8,688	(1,072)	-	36,850
Segment total assets	272,161	130,702	596,580	(603,444)	395,999
Additions of ROU assets[1]	30,669	11,010	-	-	41,679
Capital expenditures	19,984	1,949	-	-	21,933
Segment total liabilities	190,083	70,157	31,690	(48,077)	243,853
As at September 30, 2020 and for the nine months then ended					
Revenue	$ 163,986	$ 86,365	$ 1,800	$ (24,443)	$ 227,708
Segment income before tax	29,353	7,948	(3,970)	-	33,331
Interest income	170	56	20	-	246
Interest expense	(1,657)	(1,370)	(538)	-	(3,565)
Depreciation and amortization	(12,154)	(8,144)	-	-	(20,298)
Segment net income	21,517	5,824	(3,496)	-	23,845
Segment total assets	141,596	113,249	593,684	(607,741)	240,788
Additions of ROU assets	6,361	20,345	-	-	26,706
Capital expenditures	376	3,711	-	-	4,087
Segment total liabilities	74,693	63,269	51,919	(30,720)	159,161

[1] Includes ROU assets acquired through business combinations

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

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

(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 September 30, 2021, Skelton contributed revenue of $25,491 and net income of $3,675 to the Company's financial results, before amortization costs of $2,282 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 $315,000 and consolidated net income would have been approximately $37,500. 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 nine months ended September 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. Please refer to note 21 for further details on events occurring subsequent to year end.

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 nine months ended September 30, 2021 was $1,004 and $2,098 respectively.

During the nine months ended September 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	24,819	233	562	10,158	35,772
Additions through business combinations (note 4)	2,860	49	968	23,963	27,840
Dispositions	(4,233)	-	-	(140)	(4,373)
Balance at September 30, 2021	**$ 148,801**	**$ 8,374**	**$ 19,883**	**$ 130,917**	**$ 307,975**
Accumulated depreciation					
Balance at December 31, 2020	$ 53,871	$ 6,363	$ 9,209	$ 60,378	$ 129,821
Depreciation for the period	11,438	278	1,646	11,925	25,287
Dispositions	(2,886)	-	-	(35)	(2,921)
Balance at September 30, 2021	**$ 62,423**	**$ 6,641**	**$ 10,855**	**$ 72,268**	**$ 152,187**
Net carrying amounts					
At December 31, 2020	**$ 71,484**	**$ 1,729**	**$ 9,144**	**$ 36,558**	**$ 118,915**
At September 30, 2021	**$ 86,378**	**$ 1,733**	**$ 9,028**	**$ 58,649**	**$ 155,788**

[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	-	-	-	990	990
Additions through business combinations (note 4)	52,889	27,900	11,200	-	91,989
Balance at September 30, 2021	**$ 78,755**	**$ 57,748**	**$ 11,200**	**$ 7,016**	**$ 154,719**
Accumulated amortization					
Balance at December 31, 2020	$ -	$ 22,910	$ -	$ 4,351	$ 27,261
Amortization for the period	-	2,726	651	369	3,746
Balance at September 30, 2021	**$ -**	**$ 25,636**	**$ 651**	**$ 4,720**	**$ 31,007**
Net carrying amounts					
At December 31, 2020	**$ 25,866**	**$ 6,938**	**$ -**	**$ 1,675**	**$ 34,479**
At September 30, 2021	**$ 78,755**	**$ 32,112**	**$ 10,549**	**$ 2,296**	**$ 123,712**

8. Credit facilities

	September 30, 2021	December 31, 2020
Revolving credit facility	$ 20,000	$ -
Term facility	50,000	25,000
	70,000	25,000
Less: capitalized financing costs	(779)	(333)
Credit facilities	**$ 69,221**	**$ 24,667**

Recorded in the consolidated balance sheets as follows:

	September 30, 2021	December 31, 2020
Revolving credit facility	$ 20,000	$ -
Term facility	49,221	24,667
Credit facilities	**$ 69,221**	**$ 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: capitalized financing costs		(621)
		99,046
Repayment of revolving credit facility		(30,000)
		69,046
Non-cash movements		
Amortization of capitalized financing costs		175
Balance at September 30, 2021	**$**	**69,221**

The Company is party to credit facilities with a syndicate of lenders. On February 19, 2021, in connection with the anticipated acquisitions of Skelton and Skelton USA, the credit facilities were amended to increase the amounts available to be drawn under the revolving credit facility and the term facility each by $25,000. The amended credit facilities comprise a revolving credit facility in the aggregate principal amount of up to $100,000 and a term facility in the aggregate principal amount of up to $50,000. The remaining terms and conditions of the credit facilities were unchanged, except that they 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. Financing costs of $621 were capitalized in connection with the amendment.

The credit facilities are available to be drawn in Canadian dollars by way of prime rate loans, bankers' acceptances and letters of credit, and in U.S. dollars by way of base rate loans, LIBOR based loans and letters of credit, in each case, plus the applicable margin in effect from time to time. At September 30, 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 September 30, 2021, the Company is in compliance with all of its covenants under the credit facilities.

Amounts recognized in the consolidated statements of income and comprehensive income in connection with interest expense on the credit facilities for the three and nine months ended September 30, 2021 was $362 and $1,043 (2020 – $123 and $537 respectively).

9. Financial instruments and financial risk management

Accounting classifications and fair values

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, 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 given the short term nature of the financial instruments.

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 September 30, 2021, 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 (refer to note 21 for further details on subsequent events):

	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)	-	119	119	-	1,030	1,030
Balance at September 30, 2021	**25,100**	**13,380**	**38,480**	**$ 376,500**	**$ 199,114**	**$ 575,614**

Dividends to subordinate voting and multiple voting shareholders

During the nine months ended September 30, 2021, the Company declared total dividends of $5,771 (2020 – $6,049), or $0.05 ($0.06087 for the period from incorporation to March 31, 2020; and $0.05 for the six months ended September 30, 2020 thereafter) per common share, on subordinate voting and multiple voting shares. Included in accounts payable and accrued liabilities as at September 30, 2021 is $1,924 (September 30, 2020 – $1,880) for dividends payable on October 15, 2021 and 2020 respectively, to common shareholders of record on September 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 September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Net income	$ 12,188	$ 8,596	$ 36,850	$ 23,845
Weighted average number of common shares	38,477	37,600	38,282	37,600
Earnings per share – basic	**$ 0.32**	**$ 0.23**	**$ 0.96**	**$ 0.63**

Diluted earnings per share

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

(in thousands of dollars and number of shares)	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Net income	$ 12,188	$ 8,596	$ 36,850	$ 23,845
Weighted average number of common shares	38,477	37,600	38,282	37,600
Dilutive effects:				
Stock options	941	969	900	767
Deferred share units	31	15	27	9
Weighted average number of diluted common shares	39,449	38,584	39,209	38,376
Earnings per share – diluted	**$ 0.31**	**$ 0.22**	**$ 0.94**	**$ 0.62**

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 168 thousand options were exercised during the nine months ended September 30, 2021. Of the options outstanding at September 30, 2021, a total of 682 thousand are held by non-executive directors; 300 thousand are held by executive officers; with the remaining 476 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:

	September 30, 2021		September 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	(168)	15.00	-	-
Forfeited	(18)	15.00	-	-
Ending balance	1,458	$ 15.00	1,650	$ 15.00
Options exercisable	**501**	**$ 15.00**	**350**	**$ 15.00**

The Company recognized compensation expense of $309 and $925 for the three and nine months ended September 30, 2021 respectively (2020 – $593 and $1,778 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 nine months ended September 30, 2021, 168 thousand options were exercised. A total of 144 thousand options were exercised on a cashless basis and 24 thousand were exercised on a cash basis resulting in 119 thousand subordinate voting common shares being issued from treasury and in the surrender of 49 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 $45.56 per share at the time of exercises resulting in a $601 increase in share capital after the proceeds from the sale of 28 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 $604 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 nine months ended September 30, 2021, the Company recognized a compensation expense of $155 and $467 respectively, with corresponding increases to contributed surplus (September 30, 2020 – $155 and $548 respectively).

The table below summarizes the changes in the outstanding DSUs:

(thousands of DSUs)	September 30, 2021	September 30, 2020
Opening balance	23	-
Granted	11	19
Outstanding at September 30	**34**	**19**

(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 September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Logistics and distribution	$ 28,953	$ 25,682	$ 85,734	$ 70,909
Packaging solutions	4,504	4,261	15,721	15,456
Healthcare Logistics segment	**33,457**	**29,943**	**101,455**	**86,365**
Ground transportation	60,750	42,946	176,602	128,779
Air freight forwarding	6,155	5,736	19,190	16,391
Dedicated and last mile delivery	13,348	6,357	37,978	18,816
Intersegment revenue	(9,511)	(9,177)	(28,135)	(22,643)
Specialized Transportation segment	**70,742**	**45,862**	**205,635**	**141,343**
Total revenue	**$ 104,199**	**$ 75,805**	**$ 307,090**	**$ 227,708**

14. Income taxes

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

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Current income tax expense:				
Current taxes on income for the reporting period	$ 4,609	$ 4,078	$ 14,266	$ 11,427
Current taxes referring to previous periods and other adjustments	-	-	264	-
	4,609	4,078	14,530	11,427
Deferred income tax recovery:				
Deferred tax provision on loss for the period	(117)	-	(489)	-
Origination and reversal of temporary differences	(449)	(586)	(862)	(1,941)
Deferred taxes referring to previous periods and other adjustments	-	-	(153)	-
Deductible temporary differences not recognized	-	-	89	-
	(566)	(586)	(1,415)	(1,941)
Income tax expense reported to the statements of income and comprehensive income	**$ 4,043**	**$ 3,492**	**$ 13,115**	**$ 9,486**

Total cash outflow for actual taxes paid for the three and nine months ended September 30, 2021 was $3,625 and $12,785 respectively (2020 – $3,933 and $10,029 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 September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Income before income taxes	$ 16,231	$ 12,088	$ 49,965	$ 33,331
Consolidated Canadian federal and provincial income tax rate	26.5%	26.5%	26.5%	26.5%
Income tax expense based on statutory rate	4,301	3,203	13,241	8,833
(Decrease) increase in income taxes resulting from non-deductible (non-taxable) items or other adjustments	(428)	289	(296)	653
Impact of varying statutory tax rates of subsidiaries	(30)	-	(30)	-
Deductible temporary differences not recognized	89	-	89	-
Taxes relating to previous periods and other adjustments	111	-	111	-
Total income tax expense	**$ 4,043**	**$ 3,492**	**$ 13,115**	**$ 9,486**

c) Deferred taxes

	September 30, 2021	December 31, 2020
Deferred tax assets	$ 6,430	$ 6,139
Deferred tax liabilities	(14,844)	(1,978)
Net deferred tax (liability) asset	**$ (8,414)**	**$ 4,161**

d) Movement in deferred tax balances

	September 30, 2021	Recognized in income or loss	Acquired in business combina-tions (note 4)	December 31, 2020
Plant and equipment	$ (5,771)	$ 796	$ (5,515)	$ (1,052)
Accounts payable and accrued liabilities	496	43	-	453
Intangibles	(10,453)	994	(10,362)	(1,085)
Deductions deferred for tax purposes	1,792	489	-	1,303
Leases	3,153	(218)	1,887	1,484
Finance costs	2,369	(689)	-	3,058
Net deferred tax (liability) asset	**$ (8,414)**	**$ 1,415**	**$ (13,990)**	**$ 4,161**

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

14. Income taxes (continued)

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

	December 31, 2020	Recognized in income or loss	Acquired in business combina-tions	September 30, 2020
Plant and equipment	$ (1,052)	$ (474)	$ (59)	$ (519)
Accounts payable and accrued liabilities	453	185	-	268
Intangibles	(1,085)	141	(1,935)	709
Deductions (income) deferred for tax purposes	1,303	1,182	-	121
Leases	1,484	238	159	1,087
Finance costs	3,058	3,058	-	-
Net deferred tax asset (liability)	**$ 4,161**	**$ 4,330**	**$ (1,835)**	**$ 1,666**

	September 30, 2020	Recognized in income or loss	December 31, 2019
Plant and equipment	$ (519)	$ -	$ (519)
Accounts payable and accrued liabilities	268	-	268
Intangibles	709	-	709
Deductions (income) deferred for tax purposes	121	1,617	(1,496)
Leases	1,087	324	763
Net deferred tax asset (liability)	**$ 1,666**	**$ 1,941**	**$ (275)**

e) **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 $3,970 which will expire in 2039 and 2040 respectively.

f) **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 nine months ended September 30, 2021 is 3.66% (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 nine months ended September 30, 2021 is 3.13% for Specialized Transportation and 2.66% 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 nine months ended September 30, 2021**	**As at and for the year ended December 31, 2020**
Opening balance	$ 71,484	$ 56,285
Add: additions	24,819	28,724
Add: additions through business combinations	2,860	-
Less: derecognition	(1,347)	(185)
Less: depreciation	(11,438)	(13,340)
Ending balance	**$ 86,378**	**$ 71,484**

Right-of-use assets – Logistics and transportation equipment	**As at and for the nine months ended September 30, 2021**	**As at and for the year ended December 31, 2020**
Opening balance	$ 27,256	$ 28,018
Add: additions	5,825	8,048
Add: additions through business combinations	8,175	588
Less: derecognition	-	(183)
Less: depreciation	(7,890)	(9,215)
Ending balance	**$ 33,366**	**$ 27,256**

Net carrying amounts of right-of-use assets included in property, plant and equipment	**September 30, 2021**	**December 31, 2020**
Facilities	$ 86,378	$ 71,484
Logistics and transportation equipment	33,366	27,256
Balance	**$ 119,744**	**$ 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 nine months ended September 30, 2021**	**As at and for the year ended December 31, 2020**
Opening balance	$ 77,676	$ 60,948
Add: additions	24,819	28,724
Add: additions through business combinations	2,860	-
Add: interest expense	2,746	2,813
Less: derecognition	-	(212)
Less: principal repayments	(9,916)	(11,784)
Less: interest payments	(2,746)	(2,813)
Ending balance	**$ 95,439**	**$ 77,676**

Lease liabilities – Logistics and transportation equipment	**As at and for the nine months ended September 30, 2021**	**As at and for the year ended December 31, 2020**
Opening balance	$ 27,270	$ 27,765
Add: additions	5,825	8,048
Add: additions through business combinations	4,261	599
Add: interest expense	865	1,117
Less: derecognition	-	(190)
Less: principal repayments	(8,400)	(8,952)
Less: interest payments	(865)	(1,117)
Ending balance	**$ 28,956**	**$ 27,270**

Cash lease principal payments	**Nine months ended September 30, 2021**	**Year ended December 31, 2020**
Repayments of lease principal	$ (18,316)	$ (20,736)
Total lease payments	**$ (18,316)**	**$ (20,736)**

Lease liabilities	**September 30, 2021**	**December 31, 2020**
Facilities	$ (95,439)	$ (77,676)
Logistics and transportation equipment	(28,956)	(27,270)
Balance	**$ (124,395)**	**$ (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	**September 30, 2021**	**December 31, 2020**
Current	$ (25,667)	$ (21,197)
Non-current	(98,728)	(83,749)
Balance	**$ (124,395)**	**$ (104,946)**

Maturity analysis for lease liabilities – contractual undiscounted cash flows	**September 30, 2021**	**December 31, 2020**
Less than one year	$ 29,427	$ 24,720
One to 5 years	80,601	71,506
More than 5 years	28,852	21,678
Total undiscounted lease liabilities	**$ 138,880**	**$ 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 nine months ended September 30, 2021 was $1,208 and $3,611 respectively (September 30, 2020 – $987 and 2,912 respectively). Total cash outflow for leases for the three and nine months ended September 30, 2021 was $7,454 and $21,927 respectively (September 30, 2020 – $6,420 and $18,109 respectively).

Net investment lease	**As at and for the nine months ended September 30, 2021**
Opening balance	$ -
Add: additions	1,489
Add: interest received	24
Less: payments received	(527)
Less: interest income	(24)
Ending balance	**$ 962**

During the three and nine months ended September 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 $718 in connection with this net investment lease is included in trade and other receivables. The long-term portion of $244 is recorded in long-term deposits and other. The Company recognized $24 of interest income for the nine months ended September 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	**September 30, 2021**
Less than one year	$ 734
One to 5 years	244
More than 5 years	-
Total undiscounted net investment lease receivable	**$ 978**

(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 September 30, 2021**	**Three months ended September 30, 2020**	**Nine months ended September 30, 2021**	**Nine months ended September 30, 2020**
Leases	$ 1,208	$ 987	$ 3,611	$ 2,912
Credit facilities	362	123	1,043	537
Other	-	36	-	116
Total interest expense	**$ 1,570**	**$ 1,146**	**$ 4,654**	**$ 3,565**

Interest expense recognized in the consolidated statements of income and comprehensive income equates to total interest paid for the periods ended September 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 September 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 $9,996 (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 nine-month periods ending September 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 September 30, 2021.

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Revenue				
Transportation services				
TDS Logistics Ltd.	$ -	$ 176	$ -	$ 534
1708998 Ontario Limited (Medical Courier Services)	111	6	282	15
Skelton Truck Lines, Inc.	383	-	1,086	-
Facility rent recovery				
TDS Logistics Ltd.	-	164	-	492
Shared service recovery				
TDS Logistics Ltd.	-	63	-	189
Andlauer Properties and Leasing Inc.	5	5	14	15
Andlauer Management Group Inc.	13	3	62	9
9143-5271 Quebec Inc.	8	8	23	24
1708998 Ontario Limited (Medical Courier Services)	4	3	10	9
Equipment rental recovery				
TDS Logistics Ltd.	-	91	-	273
McAllister Courier Inc.	-	9	-	21
Expenses				
Transportation services				
McAllister Courier Inc.	-	241	-	682
1708998 Ontario Limited (Medical Courier Services)	41	50	128	113
TDS Logistics Ltd.	-	178	-	469
AWA Transportation & Logistics Inc.	-	253	-	546
Med Express Ltd.	5	-	5	11
Skelton Truck Lines, Inc.	79	-	300	-
Contract labour services				
Ready Staffing Solutions Inc.	1,325	998	3,492	2,983
Equipment rent				
Andlauer Properties and Leasing Inc.	588	472	1,713	1,342
Facility rent				
Andlauer Properties and Leasing Inc.	443	358	1,328	1,067
9143-5271 Quebec Inc.	383	383	1,149	1,085
Maintenance services				
D.C. Racking and Maintenance Inc. and Logiserv Inc.	12	17	18	46
Travel services				
C-GHBS Inc.	53	132	53	164

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

18. Related parties (continued)

	September 30, 2021	December 31, 2020
Trade receivables due from related parties		
AWA Transportation Services & Logistics Inc.	$ -	$ 1
Andlauer Properties and Leasing Inc.	63	20
1708998 Ontario Limited (Medical Courier Services)	55	3
Total trade receivables	118	24
Due from related parties		
Andlauer Management Group Inc.	5	10
Andlauer Properties and Leasing Inc.	-	371
Skelton USA	1,997	-
Skelton Truck Lines, Inc.	499	-
	2,501	381
Total due from related parties	**$ 2,619**	**$ 405**

Trade payables due to related parties		
Ready Staffing Solutions Inc.	$ 301	$ 23
1708998 Ontario Limited (Medical Courier Services)	24	-
Andlauer Properties and Leasing Inc.	36	18
Andlauer Management Group Inc.	1	24
Logiserv Inc.	13	21
C-GBHS Inc.	60	-
9143-5271 Quebec Inc.	12	-
	447	86
Due to related parties		
Andlauer Properties and Leasing Inc.	126	-
Skelton Truck Lines, Inc.	154	-
	280	-
Total due to related parties	**$ 727**	**$ 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 September 30, 2021**	**Three months ended September 30, 2020**	**Nine months ended September 30, 2021**	**Nine months ended September 30, 2020**
Salaries and benefits	$ 837	$ 801	$ 2,473	$ 2,422
Share-based payment arrangements	166	342	509	1,025
Director deferred share units	155	155	467	548
Total key management compensation	**$ 1,158**	**$ 1,298**	**$ 3,449**	**$ 3,995**

(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.

	September 30, 2021	December 31, 2020
Revolving credit facility	$ 20,000	$ -
Total lease liabilities	124,395	104,946
Term facility	49,221	24,667
Less: cash and cash equivalents	(14,313)	(30,148)
Net debt	179,303	99,465
Last twelve months' net income	50,719	37,714
Last twelve months' interest income	(205)	(285)
Last twelve months' interest expense	5,684	4,595
Last twelve months' income tax expense	12,495	8,866
Last twelve months' depreciation and amortization	36,757	28,022
EBITDA	105,450	78,912
Net leverage ratio	1.70	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 was effective until October 23, 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 nine months ended September 30, 2021, the Company recorded a $270, and $1,157 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 September 25, 2021 and recorded a receivable of $270 as at September 30, 2021. It is uncertain whether the Company will continue to qualify for CEWS assistance in the future.

21. Subsequent events

On October 5, 2021, the Company entered into definitive agreements to acquire 100% of the issued and outstanding shares of T.F. Boyle Transportation, Inc. ("Boyle") for $US 80,000 ($100,946) and the remaining 51% of the issued and outstanding shares of Skelton USA for $50,000 (the "Acquisitions").

On October 26, 2021, the Company and AMG completed a bought deal offering (the "Offering") of 3,500,000 subordinate voting shares at a price of $48.20 per subordinate voting share. The Offering was comprised of 2,000,000 subordinate voting shares issued from treasury for gross proceeds of $96,400 and 1,500,000 subordinate voting shares offered by AMG as part of a secondary offering, for gross proceeds of $72,300.

On November 1, 2021, the Company completed the Acquisitions. The Company used the net proceeds of the sale of subordinate voting shares by it under the Offering, together with cash on hand, to pay the aggregate cash purchase price of $100,780. The remaining purchase price for the Acquisitions was settled by the issuance of 1,040,788 subordinate voting shares from treasury.

Please refer to the Company's short form prospectus dated October 19, 2021.