ANDLAUER HEALTHCARE GROUP INC.

Management's Discussion and Analysis
of Financial Condition and Results of Operations
for the fiscal year ended December 31, 2022

March 2, 2023

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

This management's discussion and analysis of financial condition and results of operations ("MD&A") for the three months and year ended December 31, 2022 should be read in conjunction with Andlauer Healthcare Group Inc.'s audited annual consolidated financial statements for the fiscal year ended December 31, 2022, along with the related notes thereto. This MD&A is presented as of March 2, 2023 and is current to that date unless otherwise stated.

All references in this MD&A to the "Company", "AHG", "us", "our" or "we" refer to Andlauer Healthcare Group Inc., together with our direct and indirect subsidiaries, on a consolidated basis, which is referred to as "the Company" in our financial statements. Additionally, all references to "Q4 2022" are to the three months ended December 31, 2022; "Q4 2021" are to the three months ended December 31, 2021, "Q3 2022" are to the three months ended September 30, 2022; "Q3 2021" are to the three months ended September 30, 2021; "Q2 2022" are to the three months ended June 30, 2022; "Q2 2021" are to the three months ended June 30, 2021; "Q1 2022" are to the three months ended March 31, 2022; "Q1 2021" are to the three months ended March 31, 2021;"Fiscal 2023 are to the year ending December 31, 2023"; "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, acquisition-date fair values of customer relationships and expectations with respect to the coronavirus disease ("COVID-19") pandemic. 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, including expectations with respect to the distribution of COVID-19 vaccines and ancillary products, 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 inflation and rising interest rates together with the threats of stagflation or recession;
- the uncertainties in the global economy created by the war in Ukraine;
- the impact of variation in the value of the Canadian dollar in relation to the U.S. dollar;
- the impact of changing conditions in the healthcare logistics and transportation services market;
- the impact of the COVID-19 pandemic on our operations, business and financial results;
- risks and liabilities associated with the transportation of dangerous goods;
- our ability to comply with U.S. foreign ownership, control or influence mitigation measures;
- 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 and realize synergies;
- our ability to retain and grow revenue with existing clients and develop new clientele;
- our ability to retain members of our management team and key personnel;
- increases in driver compensation and the ability to attract and retain employees;
- our ability to expand into additional markets; and
- such other factors discussed in greater detail under "Risk Factors" in this MD&A and in our Annual Information Form dated March 2, 2023 for Fiscal 2022 (the "AIF") which is available on our profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

If any of these risks or uncertainties materialize, or if the opinions, estimates or assumptions underlying the forward-looking information prove incorrect, actual results or future events might vary materially from those anticipated in the forward-looking information. The opinions, estimates or assumptions referred to above and described in greater detail in "Risk Factors" should be considered carefully by prospective investors.

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

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

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

Basis of Presentation

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

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 to EBITDA for Q4 2022, Fiscal 2022, Q4 2021, Fiscal 2021 and Fiscal 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, blood products, 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 Canada-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. During Fiscal 2021, we expanded our specialized transportation capabilities, through acquisitions, into truckload services for the healthcare sector in the United States.

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 and LSU brands, 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 in Canada, 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.

We also provide specialized transportation services domestically in the United States under our Boyle Transportation and Skelton USA brands (each as defined below). Boyle Transportation provides specialized transportation services to clients in the life sciences (approximately 75-80% of revenue) and government/defense sectors (approximately 20-25% of revenue). Boyle Transportation adheres to stringent quality and security standards, employs highly trained and dedicated professionals, continually invests in advanced technology and equipment, and has an expansive reach across the United States. Skelton USA was launched in 2017 and has been growing rapidly by successfully leveraging its Canadian reputation and brand for expertise in cold chain services. Skelton USA currently serves customers across the United States.

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 in Canada 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 Canada-wide network of 31 secure, temperature-controlled facilities, the six 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.

We also have four facilities in the United States.

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 and the United States, 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.

Demographics and Healthcare Spending

We believe that we are strategically positioned to directly benefit from the strong growth expected in the North American 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.

While we believe the United States does not have as rigorous standards as Canada or Europe regarding the transportation of healthcare products, healthcare manufacturers are demanding high quality temperature control and monitoring as well as security and visibility for their truckload shipments in the United States, which aligns with our specialized transportation solutions. Both Boyle Transportation and Skelton USA comply with United States Pharmacopeia (USP) chapter <1079> Good Storage & Distribution Practices for Drug Products, to the extent applicable for transportation.

Boyle Transportation complies with U.S. Federal Motor Carrier Safety Administration regulations regarding the transportation of hazardous materials. Additionally, the National Industrial Security Program Operating Manual requires that Boyle Transportation be effectively insulated from any Foreign Ownership, Control, or Influence to perform on certain U.S. Department of Defense contracts and operates, under AHG's ownership, pursuant to a pending Special Security Agreement with the U.S. Defense Counterintelligence and Surveillance Agency.

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 in Canada 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

UPS Supply Chain Solutions, Kuehne + Nagel and Lynden Logistics in our delivery of 3PL services, and with UPS, FedEx, Purolator, and several regional players in the specialized transportation space in Canada.

In the United States, Boyle Transportation and Skelton USA compete with a large number of regional carriers as well as national transportation providers, such as FedEx.

Acquisitions

We selectively evaluate strategically compelling acquisition opportunities that leverage or expand our differentiated capabilities. In pursuing potential acquisition opportunities, we 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 continue to assess opportunities for expansion in the U.S. or into international markets through existing platforms that align with our core capabilities and existing service offerings.

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 increased the reach of our services and expanded 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" and together with Skelton, the "Skelton Companies") which enhanced our platform with expanded national 2-8°C specialized temperature-controlled capabilities and provided us with a strategic entry into the U.S. market.

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 the remaining 51% of Skelton USA, increasing our aggregate ownership of Skelton USA to 100%.

On March 1, 2022, we acquired 100% of Logistics Support Unit (LSU) Inc. ("LSU"). LSU is a third-party logistics provider offering specialty pharmacy, warehousing, distribution, and order management services throughout Canada to national and international companies as well as government clients in the pharmaceutical, medical, and biotechnology sectors.

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, many of our vehicles and our logistics equipment, as well as 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 to EBITDA.

Q4 2022 Compared to Q4 2021

Select highlights include the following:

- Revenue increased 24.6% to $165.8 million, compared to $133.0 million in Q4 2021;
- Operating income increased 31.3% to $28.2 million, compared to $21.5 million in Q4 2021;
- Net income was $19.8 million in Q4 2022, compared to $53.1 million, or $15.2 million excluding the one-time, non-cash gain of $37.9 million on the step acquisition of the Company's equity-accounted investee, Skelton USA (the "gain on step acquisition"), in Q4 2021;
- Total comprehensive income for Q4 2022 was $17.1 million compared to $56.0 million, or $18.1 million excluding the gain on step acquisition in Q4 2021;
- EBITDA was $44.7 million in Q4 2022 compared to $73.7 million, or $35.8 million excluding the gain on step acquisition in Q4 2021;
- EBITDA Margin was 27.0% in Q4 2022, compared to 55.4%, or 26.9% excluding the gain on step acquisition in Q4 2021; and
- During Q4 2022, 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 Q4 2022, our COVID-19 vaccine-related revenue comprised approximately 2.3% of total revenue compared with approximately 5.2% in Q4 2021.

Fiscal 2022 Compared to Fiscal 2021

Select highlights include the following:

- Revenue increased 47.3% to $648.4 million, compared to $440.1 million in Fiscal 2021;
- Operating income increased 49.7% to $110.3 million, compared to $73.7 million in Fiscal 2021;
- Net income was $76.3 million in Fiscal 2022, compared to $90.0 million, or $52.0 million excluding the gain on step acquisition, in Fiscal 2021;
- Total comprehensive income was $91.0 million in Fiscal 2022, compared with $92.8 million, or $54.9 million excluding the gain on step acquisition, in Fiscal 2021;
- EBITDA was $174.5 million in Fiscal 2022, compared to $157.2 million, or $119.3 million excluding the gain on step acquisition, in Fiscal 2021;
- EBITDA Margin was 26.9% in Fiscal 2022, compared to 35.7%, or 27.1% excluding the gain on step acquisition, in Fiscal 2021;
- During Fiscal 2022, approximately 3.0% of total revenue was derived from our clients that are involved in the Canadian supply of COVID-19 vaccines compared with approximately 4.0% in Fiscal 2021; and
- On March 1, 2022, we acquired 100% of the issued and outstanding shares of LSU for consideration of approximately $26.7 million. LSU is a third-party logistics provider offering specialty pharmacy, warehousing, distribution and order management services throughout Canada to national and international companies as well as government clients in the pharmaceutical, medical and biotechnology sectors. We financed the acquisition through the issuance of 154,639 Subordinate Voting Shares and cash of approximately $19.2 million. We financed the cash portion of the purchase price through a combination of cash on hand and by drawing on our Credit Facilities (as defined below).

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 operates under the brand names Accuristix and LSU; and our specialized transportation segment operates under the brand names ATS Healthcare, ATS Dedicated, Boyle Transportation and Skelton Truck Lines. 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 Boyle Transportation and Skelton USA, which we acquired on November 1, 2021, which are reported in the specialized transportation segment, also operate autonomously, as they did prior to their respective acquisitions. Similarly, LSU, which we acquired on March 1, 2022, operates autonomously and is included in our healthcare logistics segment. 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 and Boyle Transportation, our operating segments conduct their businesses in a manner that limits capital investments. We prefer 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, 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 and United States healthcare sectors. Across our healthcare logistics and specialized 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 and LSU brands, 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, Boyle Transportation and Skelton Truck Lines 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 as 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 and LSU, on behalf of their 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. Increases or decreases in fuel prices increase or reduce the cost of transportation and services, and will accordingly increase or reduce our revenues and may reduce or increase 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 and LSU, 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.

Gain on Step Acquisition of Equity-Accounted Investee

We completed our acquisition of Skelton USA in two separate transactions (49% on March 1, 2021 and the remaining 51% on November 1, 2021). In accordance with IFRS 3 – Business Combinations ("IFRS 3"), we re-measured our previously held equity interest in Skelton USA at its estimated fair value on November 1, 2021 resulting in a gain being recognized from the step acquisition.

Share of Profit of Equity-Accounted Investee, Net of Tax

Following the acquisition of a 49% interest in Skelton USA on March 1, 2021, we determined that AHG did not control Skelton USA until the remaining 51% of Skelton USA was acquired on November 1, 2021. Accordingly, between March 1, 2021 and October 31, 2021, we 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 investee. From November 1, 2021 forward, Skelton USA is consolidated with AHG in accordance with IFRS 10 – Consolidated Financial Statements.

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.

Interest Income

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

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 (losses) resulting from the sale of property, plant and equipment and certain other insignificant sources.

Income Tax Expense/Recovery

Income tax expense (recovery) 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.

Foreign Currency Translation Adjustment

In preparing our consolidated financial statements, the financial statements of each entity are translated into Canadian dollars. The assets and liabilities of foreign operations are translated to Canadian dollars at exchange rates as at the balance sheet date. Revenues and expenses of foreign operations are translated to Canadian dollars at exchange rates that approximate those on the date of the underlying transaction. Foreign exchange differences are recognized in other comprehensive income and accumulated in equity in accumulated other comprehensive income.

Non-IFRS Measures

EBITDA

We define EBITDA as net income for the period before: (i) income tax expense (recovery); (ii) interest income; (iii) interest expense; and (iv) depreciation and amortization. Net income is the most directly comparable IFRS financial measure disclosed in our financial statements to which EBITDA relates, and a reconciliation with this measure is presented under "Reconciliation of Non-IFRS Measures".

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.

In accordance with IFRS 3, when we obtained control of Skelton USA, we re-measured our previously held equity interest in our equity-accounted investee at its estimated fair value on November 1, 2021 resulting in a gain of $37.9 million being recognized from the step acquisition in Fiscal 2021. For comparative purposes with other periods, we have presented EBITDA and EBITDA Margin excluding the gain on step acquisition in this MD&A for Fiscal 2021.

EBITDA Margin

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

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

Selected Consolidated Financial Information

The following table summarizes our results of operations for the periods indicated. The selected consolidated financial information for Q4 2022, Q4 2021, Fiscal 2022, Fiscal 2021 and Fiscal 2020 has been derived from our consolidated financial statements and the related notes thereto. See "Reconciliation of Non-IFRS Measures" for quantitative reconciliations of net income to EBITDA.

Consolidated Statements of Income and Comprehensive Income

($CAD 000s)	Three Months Ended December 31,		Year Ended December 31,		
	2022	2021	2022	2021	2020
Revenue					
Logistics & distribution	37,911	29,521	155,575	115,255	96,976
Packaging solutions	3,925	4,351	21,290	20,072	19,380
Healthcare Logistics segment	41,836	33,872	176,865	135,327	116,356
Ground transportation	113,057	85,268	422,236	261,870	177,170
Air freight forwarding	7,549	10,024	34,383	29,214	22,482
Dedicated and last mile delivery	17,354	14,282	66,896	52,260	29,795
Intersegment revenue	(14,024)	(10,421)	(51,957)	(38,556)	(31,463)
Specialized Transportation segment	123,936	99,153	471,558	304,788	197,984
Total revenue	**165,772**	**133,025**	**648,423**	**440,115**	**314,340**
Operating expenses					
Cost of transportation and services	86,336	65,708	322,844	201,784	131,392
Direct operating expense	20,989	21,279	102,280	84,861	75,374
Selling, general and administrative	13,826	10,903	48,502	37,051	28,613
Depreciation & amortization	16,455	13,683	64,452	42,716	28,022
	137,606	111,573	538,078	366,412	263,401
Operating income	**28,166**	**21,452**	**110,345**	**73,703**	**50,939**
Gain on step acquisition of equity-accounted investee	-	37,921	-	37,921	-
Share of profit of equity-accounted investee, net of tax	-	371	-	2,469	-
Interest expense	(1,867)	(1,565)	(6,858)	(6,219)	(4,595)
Interest income	396	32	599	198	285
Other income (expense)	63	264	(328)	368	(49)
Income tax expense	(6,934)	(5,371)	(27,483)	(18,486)	(8,866)
Net income	**19,824**	**53,104**	**76,275**	**89,954**	**37,714**
Other comprehensive income					
Net income	19,824	53,104	76,275	89,954	37,714
Foreign currency translation adjustment	(2,772)	2,889	14,743	2,889	-
Total comprehensive income	**17,052**	**55,993**	**91,018**	**92,843**	**37,714**

($CAD 000s)	Three Months Ended December 31,		Year Ended December 31,		
	2022	2021	2022	2021	2020
Earnings per share					
Earnings per share – basic	$ 0.47	$1.29	$ 1.82	$2.30	$1.00
Earnings per share – diluted	$ 0.46	$1.26	$ 1.79	$2.25	$0.98
Select financial metrics[1]					
EBITDA[1]	44,684	73,691	174,469	157,177	78,912
EBITDA Margin[1]	27.0%	55.4%	26.9%	35.7%	25.1%
EBITDA[1] excluding gain on step acquisition	44,684	35,770	174,469	119,256	78,912
EBITDA Margin[1] excluding gain on step acquisition	27.0%	26.9%	26.9%	27.1%	25.1%

[1] These are non-IFRS financial measures. See "How We Assess the Performance of Our Business – Non-IFRS Measures" for further information on these measures.

Consolidated Balance Sheets

($CAD 000s)	As At December 31,		
	2022	2021	2020
Select financial position data			
Total assets	712,460	644,169	252,797
Total non-current liabilities	185,690	201,521	110,394

Consolidated Statements of Changes in Equity

($CAD 000s)	Three Months Ended December 31,		Year Ended December 31,		
	2022	2021	2022	2021	2020
Select financial data					
Dividends	2,934	2,083	10,883	7,854	7,929

Reconciliation of Non-IFRS Measures

The following table provides a reconciliation of net income to EBITDA for the periods indicated:

($CAD 000s)	Three Months Ended December 31,		Year Ended December 31,		
	2022	2021	2022	2021	2020
Net income	**19,824**	**53,104**	**76,275**	**89,954**	**37,714**
Income tax expense	6,934	5,371	27,483	18,486	8,866
Interest expense	1,867	1,565	6,858	6,219	4,595
Interest income	(396)	(32)	(599)	(198)	(285)
Depreciation and amortization	16,455	13,683	64,452	42,716	28,022
EBITDA[1]	**44,684**	**73,691**	**174,469**	**157,177**	**78,912**
Gain on step acquisition of equity-accounted investee	-	(37,921)	-	(37,921)	-
EBITDA[1] excluding gain on step acquisition	**44,684**	**35,770**	**174,469**	**119,256**	**78,912**

[1] This is a non-IFRS financial measure. See "How We Assess the Performance of Our Business – Non-IFRS Measures" for further information on this measure.

Results of Operations

Three months ended December 31, 2022 compared with 2021

The following section provides an overview of our financial performance for Q4 2022 compared to Q4 2021.

Revenue

Revenue for Q4 2022 increased by 24.6% to $165.8 million, compared with $133.0 million in Q4 2021. Our LSU, Boyle Transportation and Skelton USA acquisitions accounted for approximately $17.6 million of the $32.7 million increase with the remaining growth attributable to organic growth and fuel surcharge revenue as described below. Approximately 2.3% of our consolidated revenue for Q4 2022, compared with approximately 5.2% for Q4 2021, was generated by working with manufacturer, 3PL, distributor, and government clients involved in the supply of vaccines and related products in connection with the COVID-19 pandemic. We expect that revenues relating to COVID-19 vaccines and ancillary products may continue to decrease in Fiscal 2023 and we do not foresee a return to similar levels of activity in this space as that experienced in Fiscal 2021, which may impact the Company's comparative growth in future periods.

Healthcare Logistics Segment

Revenue in our healthcare logistics segment for Q4 2022 was $41.8 million, an increase of 23.5%, or approximately $7.9 million, compared with Q4 2021. The increase in revenue for this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for Q4 2022 was $37.9 million, an increase of 28.4%, or approximately $8.4 million, compared with Q4 2021. Approximately $2.4 million of the increase, net of year-to-date pass-through expenses reclassified as billings to customers of LSU in Q4 2022, is attributable to our acquisition of LSU on March 1, 2022, with the remaining increase comprising organic growth in outbound order handling activities for Accuristix and increases in transportation billings impacted by fuel surcharge programs from carriers, which are passed on to customers.

Packaging Solutions

Packaging revenue for Q4 2022 was $3.9 million, a decrease of 9.8%, or approximately $0.4 million, compared with Q4 2021. Our packaging revenue was impacted primarily by lower volume from one of our larger packaging customers due to component material constraints by their suppliers.

Specialized Transportation Segment

Revenue in our specialized transportation segment for Q4 2022 was $123.9 million, an increase of 25.0%, or approximately $24.8 million, compared with Q4 2021. Revenue growth in this segment was primarily driven by the factors set out below.

Ground Transportation

Ground transportation revenue for Q4 2022 was $113.1 million, an increase of 32.6%, or approximately $27.8 million, compared with Q4 2021. The increase reflects incremental revenue from our Boyle Transportation and Skelton USA acquisitions of approximately $15.2 million, representing an increase of 17.8%, with the remainder attributable to organic growth and higher fuel costs passed through to customers as a component of our pricing. The acquisitions of Skelton USA and Boyle Transportation were completed on November 1, 2021, and thereby only contributed two months of revenue during Q4 2021.

Air Freight Forwarding

Air freight forwarding revenue for Q4 2022 was $7.5 million, a decrease of 24.7%, or approximately $2.5 million, compared with Q4 2021. Air freight forwarding revenue was unusually high in Q4 2021 as our clients attempted to minimize service disruptions in British Columbia arising from weather events that occurred in November 2021, which severed regional road and rail links to Vancouver due to flooding and landslides. Air freight forwarding volumes returned to normal levels during Q1 2022. Decreased revenues in Q4 2022 as compared to Q4 2021 were marginally offset by higher fuel costs passed on to customers as a component of our pricing.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for Q4 2022 was $17.4 million, an increase of 21.5%, or approximately $3.1 million, compared with Q4 2021. Approximately 50% of the increase is attributable to organic growth with the remaining 50% attributable to increases in fuel costs passed on to customers.

Cost of Transportation and Services

Cost of transportation and services for Q4 2022 was $86.3 million, or 52.1% of revenue, compared with $65.7 million, or 49.4% of revenue, for Q4 2021. The higher cost of transportation and services is primarily attributable to the impact of the acquisitions of Boyle Transportation and Skelton USA over a full quarter, compared to two months in Q4 2021, and higher fuel costs in line with the increases in revenue related to fuel prices.

Direct Operating Expenses

Direct operating expenses were $21.0 million, or 12.7% of revenue, compared with $21.3 million, or 16.0% of revenue, for Q4 2021. Direct operating expenses in Q4 2022 reflect outbound volume growth in AHG's Accuristix logistics and distribution operations, the acquisition of LSU on March 1, 2022, and a year-to-date reclassification of certain pass-through expenses to logistics and distribution billings for LSU in accordance with IFRS 15.

Selling, General and Administrative Expenses

SG&A expenses for Q4 2022 were $13.8 million, or 8.3% of revenue, compared with $10.9 million, or 8.2% of revenue, for Q4 2021. The $2.9 million increase in Q4 2022 is primarily attributable to the impact of our acquisitions of Boyle Transportation and Skelton USA over a full quarter, and LSU.

Depreciation and Amortization

Depreciation and amortization for Q4 2022 was $16.5 million, an increase of 20.3% compared with $13.7 million for Q4 2021. The increase is primarily attributable to depreciation and amortization related to our LSU, Boyle Transportation and Skelton USA acquisitions.

Gain on Step Acquisition of Equity-Accounted Investee

We completed our acquisition of Skelton USA in two separate transactions (49% on March 1, 2021 and the remaining 51% on November 1, 2021). In accordance with IFRS 3, we re-measured our previously held equity interest in Skelton USA at its estimated fair value on November 1, 2021, resulting in a gain of $37.9 million being recognized from the step acquisition in Q4 2021. Skelton USA has been included in the consolidated results of the Company for all of Fiscal 2022.

Share of Profit of Equity-Accounted Investee, Net of Tax

For Q4 2021, our 49% share of total comprehensive income of Skelton USA was $0.4 million. On November 1, 2021, Skelton USA became a wholly-owned subsidiary and is included in our consolidated results for all of Fiscal 2022.

Interest Expense

Interest expense for Q4 2022 was $1.9 million compared with $1.6 million for Q4 2021. Interest expense related to leased facilities and equipment comprises the majority of interest expense; however, $0.7 million of interest expense for Q4 2022 was incurred in connection with our Credit Facilities, compared with $0.3 million in Q4 2021.

At this time, we expect to continue to hold debt under the Term Facility (as defined below), 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.

Interest Income

Interest income for Q4 2022 was $0.4 million and was negligible in Q4 2021. 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 was approximately $0.1 million for Q4 2022, compared with $0.3 million in Q4 2021. These amounts are immaterial to our overall performance for Q4 2022 and Q4 2021.

Income Tax Expense

Income tax expense for Q4 2022 was $6.9 million compared with $5.4 million in Q4 2021. Our effective tax rate is close to the statutory rate of 26.5% for Q4 2022 and Q4 2021 after removing the effect of non-deductible share-based compensation expenses, and (for Q4 2021 only) the inclusion of the share of profit of our equity-accounted investee, net of tax.

Operating Income and Net Income

Operating income for Q4 2022 was $28.2 million, an increase of $6.7 million, or 31.3%, compared with $21.5 million for Q4 2021. Approximately $1.3 million of the increase is attributable to our acquisitions of LSU, Boyle Transportation and Skelton USA with the remainder attributable to organic growth.

Income before tax for the specialized transportation segment was $20.3 million for Q4 2022, compared with $56.3 million, or $18.4 million excluding the gain on step acquisition, for Q4 2021. The increase, excluding the gain on step acquisition, is primarily attributable to a full quarter contribution from Skelton USA and Boyle Transportation and organic growth across the segment.

Income before tax for the healthcare logistics segment was $6.0 million for Q4 2022 compared with $3.2 million for Q4 2021. The increase reflects greater outbound order handling activities in line with our revenue growth for the period and the acquisition of LSU on March 1, 2022.

Net income for Q4 2022 was $19.8 million compared with $53.1 million, or $15.2 million excluding the gain on step acquisition, in Q4 2021. Higher segment net income before eliminations for both our healthcare logistics and specialized transportation operating segments contributed to the increased profit on a consolidated basis when excluding the gain on step acquisition.

Foreign Currency Translation Adjustment

Foreign exchange differences of $(2.8) million have been recognized in other comprehensive income for Q4 2022 compared with $2.9 million in Q4 2021. These differences reflect assets and liabilities of Boyle Transportation and Skelton USA which have been translated to Canadian dollars at the exchange rates as at December 31, 2022 and 2021, and revenues and expenses which have been translated to Canadian dollars at exchange rates that approximate those on the date of the underlying transactions.

Total Comprehensive Income

Total comprehensive income attributable to the owners of the Company was $17.1 million for Q4 2022 compared to $56.0 million, or $18.1 million excluding the gain on step acquisition, for Q4 2021. Total comprehensive income differs from net income due to the acquisition of foreign operations (Boyle Transportation and Skelton USA) resulting in foreign currency translation adjustments as described above.

EBITDA

EBITDA for Q4 2022 was $44.7 million compared with $73.7 million, or $35.8 million excluding the gain on step acquisition, for Q4 2021. The increase (when excluding the gain on step acquisition) was due to the factors discussed above and reflects the incremental contributions of our acquisitions and organic growth in both of our operating segments.

EBITDA Margin

EBITDA Margin for Q4 2022 was 27.0%, compared with 55.4%, or 26.9% excluding the gain on step acquisition for Q4 2021. Q4 2022 EBITDA Margin was impacted by several offsetting factors including the effect of increased fuel prices and the elimination of inter-segment transactions. The performance of our two operating segments continues to result in strong and stable EBITDA Margins. The margin profiles of Boyle Transportation and Skelton USA are in line with AHG's consolidated EBITDA range, and LSU achieved a margin consistent with our logistics and distribution product line.

Year ended December 31, 2022 compared with 2021

The following section provides an overview of our financial performance for Fiscal 2022 and Fiscal 2021.

Revenue

Revenue for Fiscal 2022 increased by 47.3% to $648.4 million compared with $440.1 million in Fiscal 2021. Revenue attributable to our acquisitions of LSU, Boyle Transportation and Skelton USA accounted for $151.4 million of the $208.3 million increase from Fiscal 2021 to Fiscal 2022.

Healthcare Logistics Segment

Revenue in our healthcare logistics segment for Fiscal 2022 was $176.9 million, an increase of 30.7%, or approximately $41.5 million, compared with Fiscal 2021. Revenue growth in this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for Fiscal 2022 was $155.6 million, an increase of 35.0%, or approximately $40.3 million, compared with Fiscal 2021. Our acquisition of LSU on March 1, 2022 contributed approximately $21.3 million of the increase, with the remaining increase attributable to volume growth within our existing client base and rate increases primarily related to transportation billings impacted by fuel surcharge programs from carriers, which are passed on to customers.

Packaging Solutions

Packaging revenue for Fiscal 2022 was $21.3 million, an increase of 6.1% or approximately $1.2 million compared with Fiscal 2021. During Q4 2022, our packaging revenue was impacted by lower volume from one of our larger packaging customers due to component material constraints by their suppliers.

Specialized Transportation Segment

Revenue in our specialized transportation segment for Fiscal 2022 was $471.6 million, an increase of 54.7%, or approximately $166.8 million, compared with Fiscal 2021. Revenue growth in this segment was primarily driven by the factors set out below.

Air Freight Forwarding

Air freight forwarding revenue for Fiscal 2022 was $34.4 million, an increase of 17.7%, or approximately $5.2 million, compared with Fiscal 2021. The increase is primarily attributable to an approximate 16% volume increase in Fiscal 2022 as compared to Fiscal 2021, with the remainder attributable to fuel-related revenue driven by increased fuel surcharges.

Ground Transportation

Ground transportation revenue for Fiscal 2022 was $422.2 million, an increase of 61.2%, or approximately $160.4 million, compared with Fiscal 2021. Approximately $112.5 million, or 43.0%, of the increase is attributable to our Boyle Transportation and Skelton USA acquisitions. The remaining increase is primarily attributable to fuel-related revenue driven by increased fuel surcharges and organic growth driven by rate increases.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for Fiscal 2022 was $66.9 million, an increase of 28.0%, or approximately $14.6 million, compared with Fiscal 2021. The increase is primarily attributable to expanded routes for existing clients and increases in fuel costs passed on to customers.

Cost of Transportation and Services

Cost of transportation and services for Fiscal 2022 was $322.8 million, or 50.0% of revenue, compared with $201.8 million, or 46.0% of revenue, for Fiscal 2021. The increase is primarily attributable to our acquisitions of Boyle Transportation and Skelton USA, which were consolidated for all of Fiscal 2022 versus only two months in Fiscal 2021. The increase in the operating ratio for Fiscal 2022 as compared to Fiscal 2021 is primarily attributable to higher fuel costs for Fiscal 2022 in line with the increase in ground transportation revenue related to fuel for Fiscal 2022.

Direct Operating Expenses

Direct operating expenses for Fiscal 2022 were $102.3 million, or 15.8% of revenue, compared with $84.9 million, or 19.3% of revenue, for Fiscal 2021. Approximately $7.0 million of the $17.4 million increase is attributable to our LSU acquisition, with the remaining increase attributable to increased volumes of inbound and outbound receiving and shipping volumes at Accuristix. Our specialized transportation acquisitions (Boyle Transportation and Skelton USA) have lower facility-related costs compared to our healthcare logistics segment, which resulted in a lower direct operating expense operating ratio in Fiscal 2022 as compared to Fiscal 2021.

During Fiscal 2021, we qualified for the CEWS program in connection with our packaging operations. A total of $1.2 million, or 0.3% of revenue, was recognized as a reduction of direct operating expenses for Fiscal 2021 for assistance received from the CEWS program compared to $nil in Fiscal 2022.

Selling, General and Administrative Expenses

SG&A expenses for Fiscal 2022 were $48.5 million, or 7.5% of revenue, compared with $37.1 million, or 8.4% of revenue, for Fiscal 2021. The increase in SG&A expenses is primarily attributable to the acquisitions of LSU, Boyle Transportation and Skelton USA. SG&A expenses for Fiscal 2022 include share-based compensation arrangements of approximately $1.3 million, or 0.2% of revenue compared to $1.9 million, or 0.4% of revenue for Fiscal 2021, which contributed to lower SG&A expenses as a percentage of revenue for Fiscal 2022 as compared to Fiscal 2021. 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.

Depreciation and Amortization

Depreciation and amortization for Fiscal 2022 was $64.5 million, an increase of 50.9%, or $21.7 million, compared with $42.7 million for Fiscal 2021. Our acquisitions of LSU, Boyle Transportation and Skelton USA accounted for the increase.

Other Income/Expense

Other expense for Fiscal 2022 was $0.3 million compared with other income of $0.3 million for Fiscal 2021. These amounts are immaterial to our overall performance for these periods.

Interest Income

Interest income for Fiscal 2022 was $0.6 million compared with $0.2 million for Fiscal 2021. 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 Fiscal 2022 was $6.9 million compared with $6.2 million for Fiscal 2021. Interest expense related to leased facilities and equipment comprises the significant majority of interest expense; however, $2.0 million of interest expense was incurred in Fiscal 2022 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, compared to $1.4 million in Fiscal 2021. At this time, we expect to continue to hold debt under the Term Facility, which does not have any repayment schedule except as a single repayment at the end of the term and will incur interest expense on the Term Facility for the duration of the term which concludes on March 1, 2025.

Income Tax Expense

Income tax expense for Fiscal 2022 was $27.5 million compared with $18.5 million for Fiscal 2021. Our effective tax rate is close to the statutory rate of approximately 26.5% for both Fiscal 2022 and Fiscal 2021 after removing the effect of non-deductible share-based compensation expenses, and (for Fiscal 2021 only) the inclusion of the share of profit of our equity-accounted investee, net of tax.

Operating Income and Net Income

Operating income for Fiscal 2022 was $110.3 million, an increase of $36.6 million, or 49.7%, compared with $73.7 million for Fiscal 2021. Approximately $14.3 million of the increase is attributable to our acquisitions of LSU, Boyle Transportation and Skelton USA, with the remainder attributable to organic growth.

Income before tax for the specialized transportation segment was $81.4 million for Fiscal 2022, compared with $95.5 million, or $57.5 million excluding the gain on step acquisition, for Fiscal 2021. Approximately $12.8 million of the increase excluding the gain on step acquisition is attributable to our acquisitions of Boyle Transportation and Skelton USA, with the remainder attributable to organic growth.

Income before tax for the healthcare logistics segment was $22.2 million for Fiscal 2022 compared with $15.0 million for Fiscal 2021. The increase reflects greater outbound order handling activities in line with our revenue growth for the period and the acquisition of LSU on March 1, 2022.

Net income for Fiscal 2022 was $76.3 million compared with $90.0 million, or $52.0 million excluding the gain on step acquisition, for Fiscal 2021. Higher segment net income before eliminations for both our healthcare logistics and specialized transportation operating segments contributed to the increased profitability on a consolidated basis, when excluding the gain on step acquisition.

Foreign Currency Translation Adjustment

Foreign exchange differences of $14.7 million have been recognized in other comprehensive income for Fiscal 2022 compared with $2.9 million for Fiscal 2021. These differences reflect assets and liabilities of Boyle Transportation and Skelton USA which have been translated to Canadian dollars at the exchange rates as at December 31, 2022 and 2021 and revenues and expenses which have been translated to Canadian dollars at exchange rates that approximate those on the date of the underlying transactions.

Total Comprehensive Income

Total comprehensive income attributable to the owners of the Company was $91.0 million for Fiscal 2022 compared to $92.8 million for Fiscal 2021, or $54.9 million excluding the gain on step acquisition, for Fiscal 2021. Total comprehensive income differs from net income due to the acquisition of foreign operations (Boyle Transportation and Skelton USA) resulting in foreign currency translation adjustments as described above.

EBITDA

EBITDA for Fiscal 2022 was $174.5 million compared with $157.2 million, or $119.3 million for Fiscal 2021 excluding the gain on step acquisition, for Fiscal 2021. The increase in EBITDA was due to the factors discussed above and reflects the incremental contributions of our acquisitions and organic growth in both of our operating segments.

EBITDA Margin

EBITDA Margin for Fiscal 2022 was 26.9% compared with 35.7%, or 27.1%, excluding the gain on step acquisition, for Fiscal 2021. 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 LSU, Boyle Transportation and Skelton USA. Fiscal 2021 EBITDA Margin reflects $2.5 million or approximately 0.6% related to the equity accounting treatment for Skelton USA.

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	Q4-22	Q3-22	Q2-22	Q1-22	Q4-21	Q3-21	Q2-21	Q1-21
Total revenue	165,772	164,898	169,402	148,351	133,025	104,199	107,125	95,766
Operating income	28,166	27,860	30,157	24,162	21,452	16,796	18,792	16,663
Net income	19,824	18,995	20,985	16,471	53,104	12,188	13,051	11,611
Total comprehensive income	17,052	32,902	27,560	13,504	55,993	12,188	13,051	11,611
EBITDA[1]	44,684	44,072	46,327	39,386	73,691	28,026	29,973	25,487
Earnings per share – basic	$0.47	$0.45	$ 0.50	$ 0.39	$ 1.29	$ 0.32	$ 0.34	$ 0.31
Earnings per share - diluted	$0.46	$0.44	$ 0.49	$ 0.39	$ 1.26	$ 0.31	$ 0.33	$ 0.30

[1] This is a non-IFRS financial measure. See "How We Assess the Performance of Our Business – Non-IFRS Measures" for further information on this measure.

Generally, revenue has trended upwards through the past eight quarters 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 acquisitions in the past eight quarters have driven step change increases in revenue as well. Revenue in Fiscal 2022 reflect increases in fuel prices which are passed on to customers as a component of our pricing. Revenue in Q3 2022 was slightly lower than Q2 2022 revenue as average diesel fuel prices were lower by approximately 7% than in Q2 2022. Average diesel fuel prices increased again from Q3 2022 to Q4 2022 and remained relatively stable in Q4 2022.

Revenue in the most recent four quarters includes the consolidation of LSU, Boyle Transportation and Skelton USA, resulting in approximately $17.6 million, $43.4 million, $40.3 million, and $32.5 million of acquired revenue for such quarters, respectively. During Fiscal 2022 and Fiscal 2021, we supported the distribution of COVID-19 vaccines and related products, such as test kits and personal protective equipment. Revenue in Q3 2021 was slightly lower than Q2 2021 revenue as activity related to COVID-19 vaccines was higher in Q2 2021. Revenue related to COVID-19 declined as a percentage of our total revenue throughout Fiscal 2022 from approximately 5.5% in Q1 2022 to approximately 2.3% in Q4 2022 and we expect this trend may continue through Fiscal 2023.

Following several quarters which were impacted by the COVID-19 pandemic, shipping volumes in Q1 2021 returned to more normalized pre-pandemic levels with year-over-year increases averaging in the mid-single digit percentages.

Operating income, net income, 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.

We completed our acquisition of Skelton USA in two separate transactions (49% on March 1, 2021 and the remaining 51% on November 1, 2021). Accordingly, in accordance with IFRS 3, we re-measured our previously held equity interest in Skelton USA at its estimated fair value on November 1, 2021 resulting in a gain of $37.9 million being recognized in income from the step acquisition. Net income, total comprehensive income, EBITDA and earnings per share figures for Q4 2021 reflect this gain.

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 in October 2020 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 49% of Skelton USA in March 2021 through a combination of cash on hand and by drawing $50.0 million on our Revolving Credit Facility and $25.0 million on our Term Facility, and by issuing $25.0 million of Subordinate Voting Shares to the shareholders of Skelton and Skelton USA. During Fiscal 2021, we repaid $39.0 million of the $50.0 million initially drawn on our Revolving Credit Facility in connection with the Skelton and Skelton USA acquisitions.

On November 1, 2021, we completed the acquisitions of 100% of Boyle Transportation and the remaining 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$83.0 million ($104.7 million), of which approximately US$63.0 million was paid in cash and US$20.0 million was satisfied by issuing 522,116 Subordinate Voting Shares to the shareholders of Boyle Transportation. The aggregate purchase price for the acquisition of the remaining 51% interest in Skelton USA was approximately $44.8 million, of which $19.8 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 completion of a bought deal equity offering on October 26, 2021, pursuant to which AHG issued 2.0 million Subordinate Voting Shares from treasury for gross proceeds of $96.4 million to the Company, with the remaining amounts funded from existing cash flow from operations.

On March 1, 2022, we acquired LSU for approximately $26.7 million. We satisfied the purchase price through the issuance of 154,639 Subordinate Voting Shares to the shareholders of LSU and cash of approximately $19.2 million comprising the cash portion of the purchase price net of provisional customary working capital adjustments. We financed the cash portion of the purchase price through a combination of cash on hand and by drawing on our Revolving Credit Facility. During Fiscal 2022, we repaid $23.0 million of the amounts drawn on our Revolving Credit Facility in connection with the LSU and Skelton acquisitions. As at December 31, 2022, there was $nil drawn on our Revolving Credit Facility.

Working Capital

The following table presents our working capital position as at December 31, 2022 and 2021:

($CAD 000s)	**As at December 31,**	
	2022	**2021**
Cash and cash equivalents	65,855	24,990
Trade and other receivables	98,423	90,093
Inventories	3,326	2,331
Prepaid expenses and other	4,416	4,656
Due from related parties	56	108
Revolving credit facility	-	(11,000)
Accounts payable and accrued liabilities	(42,918)	(39,404)
Current portion of lease liabilities	(26,547)	(26,446)
Income taxes payable	(16,313)	(13,679)
Working Capital	**86,298**	**31,649**

As at December 31, 2022, we had working capital of $86.3 million compared with working capital of $31.6 million as at December 31, 2021. The $54.6 million increase in working capital is primarily attributable to the increased scale of our business since the acquisitions of LSU, Boyle Transportation and Skelton USA and the repayment of amounts drawn on our Revolving Credit Facility. Although the Revolving Credit Facility does not have any repayment terms, we classify amounts drawn on it in current liabilities as we expect to reduce any amounts drawn within the following twelve months with free cash flow generated from operations. 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 $75.0 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 $25.0 million. On February 19, 2021, in connection with our acquisitions of Skelton and 49% of 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 $25.0 million. The amended Credit Facilities comprise a Revolving Credit Facility in the aggregate principal amount of up to $100.0 million and a Term Facility in the aggregate principal amount of up to $50.0 million. The remaining terms and conditions of the Credit Facilities remain unchanged, except that they will mature and be due and payable on March 1, 2025. As at December 31, 2022, the aggregate amount outstanding before financing costs under the Credit Facilities was $50.0 million under the Term Facility and $nil under the Revolving Credit Facility.

The Revolving Credit Facility is available to be drawn in Canadian dollars by way of prime rate loans, bankers’ acceptances and letters of credit, and in U.S. dollars by way of base rate loans 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 $25.0 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 $25.0 million by way of bankers’ acceptances in connection with the Skelton acquisitions on March 1, 2021.

The Credit Facilities are subject to customary negative covenants and include financial covenants requiring us to maintain at all times a maximum net leverage ratio and a minimum interest coverage ratio, tested on a quarterly basis. As at December 31, 2022, 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 $100.0 million, such that any amounts drawn under the accordion feature would be in addition to the amounts ordinarily available, subject to the agreement of participating lenders and provided that we are not, or would not, be in default under the Credit Facilities, or in non-compliance with any financial covenants and an event of default does not or would not exist, after giving effect thereto and provided that all representations and warranties are true and correct immediately prior to, and after giving effect to, such increase. As of the date of this MD&A, this accordion feature remains uncommitted.

Capital Expenditures

Capital expenditures for Q4 2022 and Fiscal 2022 were $11.0 million and $25.7 million, respectively, compared with $2.9 million and $8.0 million for Q4 2021 and Fiscal 2021, respectively, as Skelton and Boyle Transportation invested to support growth and to maintain their fleets. 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 discussed further below.

Skelton and Boyle Transportation have traditionally purchased their fleets, whereas ATS Healthcare and Skelton USA have historically leased their equipment. As our operating segments run autonomously, we expected these entities to continue their past practices, however the Company is now evaluating different lease versus purchase scenarios for its fleets in order to optimize its free cash flow moving forward. Beyond this evaluation, there are no known trends or expected fluctuations in our capital resources, including expected changes in the mix and relative cost of these resources.

Capital Expenditures (Maintenance)

Maintenance capital expenditures refers to capital expenditures necessary for us to sustain our assets in order to continue operating in our current form. We generally seek to maintain our facilities and equipment at a level consistent with the needs of the sector we operate within and ensure that preventative maintenance programs are in place to achieve the performance expected from our facilities and equipment. Outlays for maintenance capital expenditures for Q4 2022 and Fiscal 2022 were $7.0 million and $13.3 million, respectively, compared with $2.2 million and $4.1 million, respectively, for Q4 2021 and Fiscal 2021. These capital expenditures were funded through cash flows from operations.

Capital Expenditures (Growth)

Growth capital expenditures comprises expenditures on new assets that are intended to grow our productive capacity. These capital expenditures are made to acquire or expand leasehold improvements, transportation and logistics equipment (including pick-up and delivery equipment, warehouse racking, material handling equipment, warehouse automation equipment and specialized logistics equipment such as coolers or vaults, among others), furniture and fixtures, and computer equipment to support new contracts or additional volume from new business. Outlays for growth capital expenditures for Q4 2022 and Fiscal 2022 were $4.0 million and $12.4 million, respectively, compared with $0.7 million and $3.9 million in Q4 2021 and Fiscal 2021, respectively. Growth capital expenditures can range from $5.0 million to over $15.0 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 Q4 2022 and Fiscal 2022 relate primarily to the purchase of tractors and trailers by Skelton and Boyle Transportation and include approximately $0.3 million for Q4 2022 and $1.7 million for Fiscal 2022 related to warehouse equipment for Accuristix. Growth capital expenditures for Q4 2021 and Fiscal 2021 were attributable to the purchase of tractors and trailers by Skelton (with respect to Q4 2021 only) and leasehold improvements, warehouse racking, material handling equipment, and furniture and fixtures related to our healthcare logistics facility in Brampton, Ontario.

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 went live on our new WMS in Q4 2022 and implementations will continue throughout Fiscal 2023. In Fiscal 2022 we capitalized $1.6 million to intangible assets in connection with our new WMS.

Cash Flows

The following table presents cash flows for the three months and year ended December 31, 2022 and 2021:

($CAD 000s)	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	2022	2021
Cash flows				
Cash from Operating Activities	36,745	28,349	137,128	84,091
Cash (used in) from Financing Activities	(10,110)	75,089	(51,587)	93,889
Cash used in Investing Activities	(10,928)	(93,005)	(45,557)	(183,382)
Effect of foreign currency translation[1]	(535)	244	881	244
Net change in cash	15,172	10,677	40,865	(5,158)
Select cash flow data				
Capital expenditures	(11,023)	(2,898)	(25,748)	(8,026)
Total cash outflow for leases	(8,506)	(8,020)	(33,822)	(29,947)

[1] Comprises the effect of differences in exchange rates for U.S. dollar opening balance sheet cash balances on January 1, 2022 versus December 31, 2022 and for November 1, 2021 versus December 31, 2021 for Boyle Transportation and Skelton USA.

Cash Flow Generated From Operating Activities

Cash flow generated from operating activities for Q4 2022 and Fiscal 2022 totaled $36.7 million and $137.1 million, respectively, compared with $28.3 million and $84.1 million for Q4 2021 and Fiscal 2021, respectively. The increase in cash flows generated from operating activities relates principally to profitable business growth, including profitable growth from acquisitions, reflected in the 46.3% increase in Fiscal 2022 EBITDA, excluding the gain on step acquisition, and normal fluctuations in trade accounts receivable and trade accounts payable.

Cash Flow (Used In) Generated From Financing Activities

Cash flow used in financing activities for Q4 2022 and Fiscal 2022 totaled $10.1 million and $51.6 million, respectively, compared with cash flow generated from financing activities of $75.1 million for Q4 2021 and $93.9 million for Fiscal 2021. The significant cash generated from financing activities in Fiscal 2021 was primarily attributable to draws on our Credit Facilities in connection with the acquisitions of Skelton and 49% of Skelton USA on March 1, 2021. On March 1, 2022 we made a $12.0 million draw on our Revolving Credit Facility in connection with the acquisition of LSU. In Fiscal 2022 we repaid $23.0 million on our Revolving Credit Facility, compared with $39.0 million repaid in Fiscal 2021. The remaining cash flows used in financing activities in Q4 2022, Fiscal 2022, Q4 2021 and Fiscal 2021 relate principally to ordinary course repayments of lease liabilities. In Q3 2022 and Q1 2022 we increased our quarterly dividend to $0.07 from $0.06 and to $0.06 from $0.05 per Subordinate Voting Share and Multiple Voting Share, respectively.

Cash Flow Used In Investing Activities

Cash flow used in investing activities for Q4 2022 and Fiscal 2022 totaled $10.9 million and $45.6 million, respectively, compared with cash flow used in investing activities of $93.0 million and $183.4 million, respectively, for Q4 2021 and Fiscal 2021. These amounts are primarily attributable to our acquisitions of LSU in Q1 2022, and Skelton, Boyle Transportation and Skelton USA in Fiscal 2021 which comprised $19.3 million and $174.0 million net of cash acquired, in Fiscal 2022 and Fiscal 2021, respectively. The remaining amounts comprised normal course expenditures on property, plant and equipment and intangible assets.

Contractual Obligations

As at December 31, 2022, we had the following contractual commitments:

- Outstanding letters of guarantee in the amount of $0.4 million (December 31, 2021 – $0.4 million);
- Commitments relating to the leasing of fleet equipment, ranging from 72 to 84 months, beginning upon delivery to us of the equipment in Fiscal 2023, for total lease commitments of $11.4 million (December 31, 2021 – $8.5 million); and
- Commitments to purchase fleet equipment expected to be delivered during Fiscal 2023 totaling $10.1 million (December 31, 2021 – $7.8 million).

Credit facilities

As at December 31, 2022, the aggregate amounts outstanding under the Credit Facilities were $50.0 million under the Term Facility (December 31, 2021 – $50.0 million) and $nil under the Revolving Credit Facility (December 31, 2021 – $11.0 million) 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 operating segments. Building lease terms range from five to 10 years, with many leases including optional extension periods. For Q4 2022, facility lease liabilities are calculated using our incremental borrowing rate of 5.14% (Q4 2021 – 3.74%). Equipment lease terms range from one to seven years. For Q4 2022, equipment lease liabilities are calculated using our incremental borrowing rate of 4.78% (Q4 2021 – 3.14%) for our specialized transportation segment and 5.04% (Q4 2021 – 2.57%) for our healthcare logistics segment.

The following table summarizes our contractual obligations as at December 31, 2022 based on undiscounted cash flows:

($CAD 000s)	Total	Less than 1 Year	1-5 Years	More than 5 years
Credit facilities	50,000	-	50,000	-
Lease liabilities	124,726	30,523	81,317	12,886
Equipment purchases and lease commitments	21,497	11,875	9,622	-
Other obligations	108,182	59,231	48,951	-
Total contractual obligations	**304,405**	**101,629**	**189,890**	**12,886**

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.

Foreign exchange contracts

The Company, from time to time, uses foreign exchange contracts to manage certain exposures to fluctuations in foreign exchange rates as part of its overall risk management program. Earnings impacts from derivatives used to manage a particular risk are reported as part of other comprehensive income.

There were no foreign exchange contracts in place during Fiscal 2022 or as at December 31, 2022.

Related Party Transactions

Intercompany balances and transactions have been eliminated in our consolidated financial statements for the years ended December 31, 2022 and 2021.

During Fiscal 2022 and Fiscal 2021, 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 52.1% of the issued and outstanding Shares and 81.3% of the voting power attached to all of the Shares. AMG is owned and controlled by Michael Andlauer, our CEO and a director of the Company.

We undertake a limited amount of administrative shared services for AMG. We expect to continue to incur and recover such costs in connection with AMG. For Fiscal 2022, we charged AMG $13 (Fiscal 2021 – $66) for recovery of shared services costs.

Andlauer Properties and Leasing Inc.

Andlauer Properties and Leasing Inc. ("APLI") is a subsidiary of AMG and leases certain facilities and logistics and transportation equipment to us. We also lease facilities and logistics and transportation equipment from arm's length providers. During Fiscal 2022, we paid $2,301 (Fiscal 2021 - $2,261) for leases of logistics and transportation equipment; and $2,163 (Fiscal 2021 - $1,771) 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 Fiscal 2022, we charged APLI $20 (Fiscal 2021 - $19) for recovery of shared services costs.

9143-5271 Québec Inc.

9143-5271 Québec Inc. is a subsidiary of AMG and leases a facility located at 655 Desserte E. Hwy 13, Laval, Québec to AHG. We also lease facilities from arm's length providers. During Fiscal 2022, we paid $1,532 (Fiscal 2021 - $1,532) for this building. We expect to continue leasing this property. For Fiscal 2022, we charged 9143-5271 Québec Inc. $32 (Fiscal 2021 - $31) 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 Fiscal 2022, we expensed $6,517 (Fiscal 2021 - $4,918) for purchases of temporary agency employee services from RSS. We expect to continue purchasing temporary agency services from RSS.

1708998 Ontario Limited (Medical Courier Services)

Medical Courier Services ("MCS") is a subsidiary owned 80% by AMG and provides transportation services to us, providing extended reach for shipments where we do not have our own facilities or equipment. During Fiscal 2022, we expensed $147 (Fiscal 2021 - $188) for deliveries subcontracted to MCS. We expect to continue subcontracting deliveries to MCS. Similarly, in Fiscal 2022 we invoiced MCS for $173 (Fiscal 2021 - $360) for transportation services provided to MCS. For Fiscal 2022, we charged MCS $13 (Fiscal 2021 - $14) for recovery of shared services costs.

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 $40 in services during Fiscal 2022 (Fiscal 2021 - $12). 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 partially 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 Fiscal 2022, we purchased $47 (Fiscal 2021 - $20) of warehouse racking and racking components from Logiserv. During Fiscal 2022, we expensed $54 (Fiscal 2021 - $29) for warehouse racking installation, maintenance and repair services provided by DCR and Logiserv. We expect to continue to purchase warehouse racking installation, maintenance and repair services from DCR and Logiserv.

C-GHBS Inc.

C-GHBS Inc. ("C-GHBS") is a subsidiary of AMG and provides air travel services to us. We also purchase air travel services from arm's length providers. During Fiscal 2022, we purchased $104 (Fiscal 2021 - $67) from C-GHBS. We expect to continue to purchase air travel services from C-GHBS.

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 USA 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 October 31, 2021, AHG purchased $319 of transportation services from SKINC and invoiced $1,180 to SKINC. Effective November 1, 2021, 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 Fiscal 2022, we recorded $4,556 (Fiscal 2021 – $5,171) 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 December 31,	
	2022	2021
Accounts receivable		
Andlauer Properties and Leasing Inc.	15	74
Med Express Ltd.	-	2
1708998 Ontario Limited (Medical Courier Services)	32	32
Trade receivables due from related parties	47	108
Due from related parties		
Andlauer Management Group Inc.	56	16
Former T.F. Boyle Transportation, Inc. shareholders	-	92
Due from related parties	56	108
Total due from related parties	**103**	**216**
Accounts payable and accrued liabilities		
Ready Staffing Solutions Inc.	463	343
1708998 Ontario Limited (Medical Courier Services)	18	-
Andlauer Properties and Leasing Inc.	73	302
Andlauer Management Group Inc.	9	-
Logiserv Inc.	12	7
C-GHBS Inc.	12	-
Trade payables due to related parties	587	652
Due to related parties		
Andlauer Properties and Leasing Inc.	342	254
Former Skelton Canada Inc. shareholders	-	1,032
Due to related parties	342	1,286
Total due to related parties	**929**	**1,938**

Critical Accounting Judgements and Estimates

The preparation of our 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 consolidated financial statements for the years ended December 31, 2022 and 2021. Key estimates and assumptions remain consistent with those disclosed in our consolidated financial statements.

The Company attributes value to the customer relationships maintained by LSU, Boyle Transportation, Skelton USA, and Skelton as well as to the brands of each acquired entity. For the year ended December 31, 2022, the Company recorded intangible assets of $12.7 million (December 31, 2021 - $115.2 million) in connection with customer relationships and $3.2 million (December 31, 2021 - $37.3 million) in connection with the brands of its acquired entities. The determination of the acquisition-date fair value of the customer relationships required the Company to make significant estimates and assumptions regarding future revenue growth from existing customers, future cost of sales and operating expenses, attrition rates, contributory asset charges and discount rates. The determination of the acquisition-date fair value of brands required the Company to make significant estimates and assumptions regarding future revenue growth applicable to brands, royalty rates, long-term growth rates used to determine terminal value and discount rates. The customer relationships and brands are definite life intangible assets each of which will be amortized over ten years.

The goodwill is principally attributable to the premium of established business operations, each with a strong reputation in healthcare transportation, and the synergies expected to be achieved from integrating LSU, Boyle Transportation, Skelton USA, and Skelton into the Company's existing business. Goodwill arising from the Company's business combinations has been allocated to the healthcare logistics segment in Fiscal 2022 and to the specialized transportation segment in Fiscal 2021.

Significant New Accounting Standards

Adopted During the Year

There were no new standards that became effective for periods beginning on or after January 1, 2022 that had a material impact on our annual consolidated financial statements for Fiscal 2022.

To be Adopted in Future Periods

The following new standards and amendments to standards are not yet effective for the year ended December 31, 2022, and have not been applied in preparing the consolidated financial statements for Fiscal 2022:

<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.

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 The Bank of Nova Scotia, comprised of a Revolving Credit Facility in the aggregate principal amount of up to $100.0 million and a Term Facility in the aggregate principal amount of up to $50.0 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 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 $100.0 million, such that any amounts drawn under the accordion feature would be in addition to the amounts ordinarily available, subject to the agreement of participating lenders and provided that we are not, or would not, be in default under the Credit Facilities or in non-compliance with any financial covenants and an event of default does not or would not exist, after giving effect thereto and provided that all representations and warranties are true and correct immediately prior to, and after giving effect to, such increase. As at December 31, 2022, the aggregate amounts outstanding under the Credit Facilities were $50.0 million under the Term Facility and $nil 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 and letters of credit, in each case, plus the applicable margin in effect from time to time. At December 31, 2022, the Credit Facilities comprise bankers' acceptances drawn at an interest rate of 5.9%. Although interest rates have increased during Fiscal 2022 there has been no significant impact on our financial condition or results of operations. There may be further increases in interest rates in the near term as the Governing Council of the Bank of Canada continues to target 2-3% inflation, however we expect that any such increases will not significantly impact our financial condition.

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 use derivative instruments to reduce our exposure to foreign currency risk only where appropriate. During Fiscal 2022 and as at December 31, 2022 there were no derivative instruments in place.

COVID-19

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 uncertain and may lead to adverse changes in our cash flows, working capital levels, debt balances, operating results and financial position in the future. At this time, we do not believe there is any immediate risk of significant disruption to our services, however the ultimate duration and magnitude of the impact COVID-19 has had and will have on the economy and our business is not known at this time.

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.

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 March 2, 2023, there were 20,074,253 Subordinate Voting Shares issued and outstanding, 21,840,000 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 1,073,750 options, each of which can be exercised or settled for one Subordinate Voting Share and 50,907 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 52.1% of the issued and outstanding Shares and 81.3% of the voting power attached to all of the Shares.

Subject to financial results, capital requirements, available cash flow, corporate law requirements and any other factors that our board of directors may consider relevant, we expect to declare a quarterly dividend on the Subordinate Voting Shares and Multiple Voting Shares equal to approximately $0.07 per share on an ongoing basis. Our Q4 2022 dividend, in the amount of $0.07 per Share, was paid on January 16, 2023 to shareholders of record as at December 31, 2022. Dividends are declared and paid in arrears. The amount and timing of the payment of any dividends are not guaranteed and are subject to the discretion of our board of directors.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

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

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

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

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

Disclosure Controls and Procedures

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

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

Internal Controls Over Financial Reporting

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

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

Changes in Internal Controls Over Financial Reporting

No changes were made to our ICFR during Fiscal 2022 that have materially affected, or are reasonably likely to materially affect, our ICFR.

Limitation on Scope of Design

We completed the design of DC&P and ICFR related to LSU in Q4 2022, which is now integrated with our existing healthcare logistics segment's control environment. We completed the design of DC&P and ICFR related to Boyle Transportation and Skelton USA in Q3 2022, which are now 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.