



Andlauer
HEALTHCARE GROUP

ANNUAL REPORT 2019



A VITAL LINK
IN HEALTHCARE

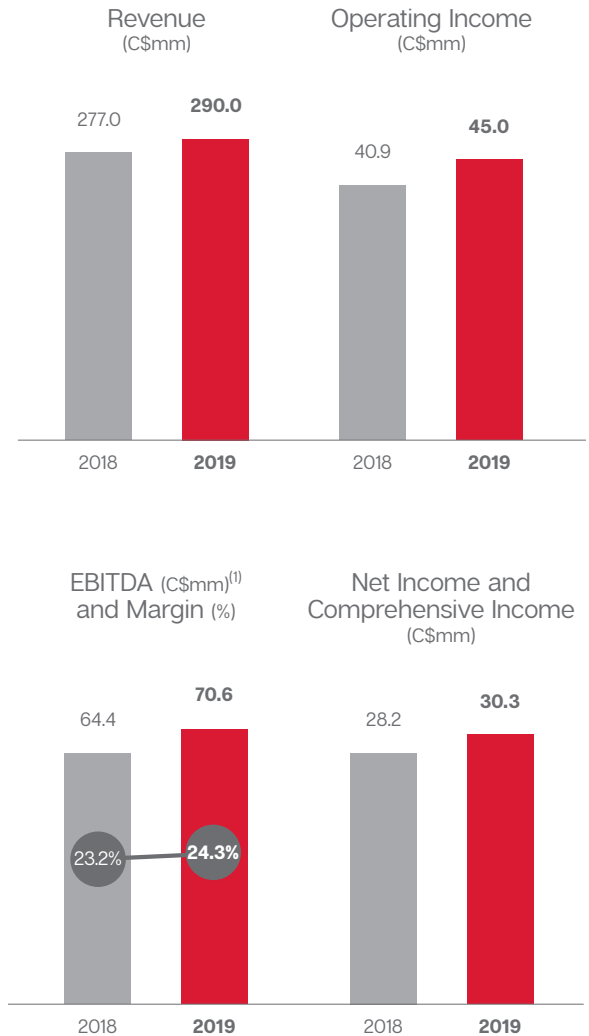
Company Profile

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

2019 Operational Highlights

- / We completed the construction of our new facilities in Calgary, Alberta, expanding our logistics and distribution footprint by 23,000 square feet and significantly increasing capacity in our specialty transportation segment;
- / We secured a lease on a new 220,000 square-foot facility (commencing July 1, 2020) in the Greater Toronto Area to service a major new client and to add capacity for future growth; and
- / We successfully completed our \$172.5 million initial public offering of subordinate voting shares and commenced trading on the Toronto Stock Exchange on December 11, 2019.

2019 Financial Highlights



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

33
FACILITIES

1.8M
SQUARE FEET
OF CAPACITY



To our shareholders,

On behalf of the Board of Directors and management of Andlauer Healthcare Group Inc. (“AHG”) and our team of over 1,400 employees and owner operators across Canada, I am pleased to present AHG’s 2019 Annual Report, our first as a publicly traded company.



Michael Andlauer
Chief Executive Officer

Our initial public offering (“IPO”) on the Toronto Stock Exchange was successfully completed on December 11, 2019. The IPO comprised the issuance of 11.5 million Subordinate Voting Shares (“SVS”) at a price of \$15.00 per share, which included the subsequent exercise of an over-allotment option, resulting in total gross proceeds of \$172.5 million. Today, AHG has a total of 12.5 million SVS issued and outstanding, in addition to 25.1 million multiple voting shares that are held by Andlauer Management Group, providing strong alignment with holders of SVS.

AHG’s 2019 financial results demonstrate our continued success in generating growth by leveraging our unique set of competitive strengths and national platform to provide specialized supply-chain solutions to the growing healthcare industry in Canada. Year-over-year revenue increased 4.7% to \$290.0 million and operating income of \$45.0 million was 10.1% above the 2018 level. Net income increased 7.7% to \$30.3 million and 2019 EBITDA was \$70.6 million, 9.6% ahead of the previous year. We generate strong and stable EBITDA margins, and were able to increase EBITDA margin to 24.3% in 2019 from 23.2% in 2018.

These results are consistent with our recent history. By offering a diversified platform of healthcare transportation and logistics offerings, we have successfully grown our revenue at a compound annual growth rate of approximately 10% since 2010 and are today very well established in Canada with over 1.8 million square feet of healthcare space across

33 facilities from coast to coast. None of our competitors can match this national network. We provide, directly or indirectly, specialized transportation in Canada for 22 of the top 25 global pharmaceutical manufacturers and manage the finished goods distribution of approximately \$7 billion in pharmaceutical product sales. We continue to demonstrate strong client retention with an average client relationship of more than 15 years across our top 20 clients, a testament to the professionalism and strong employee culture that we have fostered.

Our success is built on a platform of supply chain companies that deliver discrete service offerings, operating in the highly regulated and stringent healthcare industry. This platform of services ranges from specialized logistics and distribution, packaging solutions, air freight forwarding, ground transportation, and dedicated and last mile delivery. While our customers are primarily in the pharmaceutical manufacturing business, they also include producers of nutraceuticals, medical devices, and consumer and animal health products.

We are differentiated in a highly fragmented market by four established competitive strengths that span all the services we provide. First, end-to-end validated temperature management. Our distribution facilities are GMP licensed and temperature mapped. We have over 1,200 individuals trained and educated in the movement of healthcare products. Second, regulatory compliance and quality assurance.

Letter to Shareholders (continued)

Many of our clients' products are highly regulated and they require us to meet those regulations as well. Third, technology-enabled visibility and temperature monitoring capability throughout the supply chain. And fourth, security. Given the value and importance of these products, security is of upmost importance to our clients. As an example, we maintain Health Canada compliant vaults for the management of narcotics and controlled drugs.

Looking ahead, we are well positioned in a very attractive market. Spending on healthcare logistics and transportation has been outpacing GDP growth in Canada and this growth is forecast to continue, driven by demographic trends. Further, there is an increasing number of healthcare and adjacent products with unique logistical needs, including biological pharmaceuticals, narcotics, medical devices and vaccines. Ever-increasing industry regulation also increases our clients' requirements for specialized supply-chain solutions and represents a significant barrier to new industry participants. And, demand for distributed ancillary services is increasing as healthcare companies focus more and more on their core competencies like R&D and marketing.

Our successful initial public offering at 2019 year-end has positioned us well to advance our three-part growth strategy that will further enhance our market-leading position. We intend to strengthen our clients' connection to our platform by broadening our service offering, increase our capacity to attract both new clients and new business, and expand our platform through acquisitions. We are confident that AHG will continue to produce growth and stability, while providing a reliable dividend to shareholders.

As I write this letter, the global community is battling the COVID-19 outbreak. As a supplier to the healthcare sector, AHG is part of the solution and our great team is doing everything we can to support the healthcare needs of people across Canada. AHG truly is a vital link in Canadian healthcare.

In closing, I would like to recognize the contributions of AHG's associates, management, and directors in our early days as a publicly traded company. We also wish to thank you, our shareholders, for your confidence and support. We look forward to regularly updating you on AHG's progress as we continue to advance our growth strategy and build value for all stakeholders.

Yours in health,

Michael Andlauer
Chief Executive Officer



ANDLAUER HEALTHCARE GROUP INC.

**Management's Discussion and Analysis of Financial Condition and Results of Operations for the
fiscal year ended December 31, 2019**

March 12, 2020

TABLE OF CONTENTS

Cautionary Note Regarding Forward-Looking Information	1
Basis of Presentation	2
Non-IFRS Measures	3
Overview	3
Summary of Factors Affecting Performance	5
How We Assess the Performance of Our Business	8
Selected Consolidated Financial Information	12
Reconciliation of Non-IFRS Measures	13
Results of Operations	13
Summary of Quarterly Results	19
Liquidity & Capital Resources	19
Contractual Obligations	23
Off-Balance Sheet Arrangements	24
Seasonality	24
Financial Instruments	24
Related Party Transactions	25
Critical Accounting Judgements and Estimates	29
Significant New Accounting Standards Not Yet Adopted	30
Accounting Classifications and Fair Values	31
Risk Factors	31
Outstanding Share Data	32
Disclosure Controls and Procedures and Internal Controls Over Financial Reporting	33
Additional Information	33

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

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 Group" in the Company's financial statements. Additionally, all references to "Q4 2019" are to the three months ended December 31, 2019; "Q4 2018" are to the three months ended December 31, 2018; "Fiscal 2019" are to our fiscal year ended December 31, 2019; "Fiscal 2018" are to our fiscal year ended December 31, 2018; and "Fiscal 2017" are to our fiscal year ended December 31, 2017.

This management's discussion and analysis of financial condition and results of operations ("MD&A") for the three months and year ended December 31, 2019 should be read in conjunction with the Company's audited annual consolidated financial statements for the fiscal year ended December 31, 2019, along with the related notes thereto. This MD&A is presented as of March 12, 2020 and is current to that date unless otherwise stated.

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 and objectives. 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 or the markets in which we operate 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 are 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 Company's ability to execute its growth strategies;
- the impact of changing conditions in the healthcare logistics and transportation services market;
- increasing competition in the healthcare logistics and transportation services market in which the Company operates;
- volatility in financial markets;
- changes in the attitudes, financial condition and demand of the Company's target market;
- developments and changes in applicable laws and regulations;
- the Company's ability to source and complete acquisitions;
- the Company's ability to retain existing clients and develop new clientele;
- the Company's ability to retain members of our management team and key personnel;
- increases in driver compensation and the ability to attract and retain employees;
- the Company's ability to expand into additional markets; and
- such other factors discussed in greater detail under "Risk Factors" in this MD&A and in the Company's annual information form dated March 12, 2020 for Fiscal 2019 (our "AIF") which is available on the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

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

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

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

Basis of Presentation

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

As described in additional detail in the audited financial statements of the Company, our financial statements are presented as consolidated financial statements. AHG's acquisition of the AHG Entities (as defined below) in connection with the Company's initial public offering ("IPO") was a business

combination involving entities under common control in which all of the combining entities are ultimately controlled by Andlauer Management Group Inc. (“AMG”). This method results in our financial statements being restated for periods prior to the date of obtaining common control, to reflect the combination as if it had occurred from the beginning of the period that the entities were under common control, regardless of the actual date the common control transaction closed.

Non-IFRS Measures

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

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

For quantitative reconciliations of net income and comprehensive income to EBITDA and EBITDA less Leases and CAPEX for Q4 2019, Q4 2018, Fiscal 2019 and Fiscal 2018, please see “Reconciliation of Non-IFRS Measures” below.

Overview

AHG was incorporated under the *Business Corporations Act* (Ontario) on November 12, 2019 with its head office located at 100 Vaughan Valley Blvd, Woodbridge, ON L4H 3C5. The Company’s subordinate voting shares (“Subordinate Voting Shares”) are listed on the Toronto Stock Exchange (the “TSX”) under the stock symbol “AND”.

Initial Public Offering

On December 11, 2019, we successfully completed an IPO of 10,000,000 Subordinate Voting Shares at a price of \$15.00 per share for gross proceeds of \$150,000,000. The underwriters in the IPO were granted an over-allotment option (the “Over-Allotment Option”) to purchase up to an additional 1,500,000 Subordinate Voting Shares at a price of \$15.00 per Subordinate Voting Share, which was fully exercised on December 16, 2019, and raised additional gross proceeds of \$22,500,000.

In connection with the IPO, we completed a series of reorganization transactions (the “Pre-IPO Reorganization”), including the settlement of certain outstanding related party balances, the creation of a new Ontario corporation, 2721275 Ontario Limited, and the settlement of the AHG Employee Benefit Plan Trust (the “Employee Trust”), for the benefit of certain executive officers and employees of the Company

and the AHG Entities. In addition, on December 11, 2019, we completed the acquisition of a number of entities including Associated Logistics Solutions Inc., Credo Systems Canada Inc., 2186940 Ontario Inc. and their respective subsidiaries (collectively, the “AHG Entities”) from AMG in consideration for the issuance of 25,175,000 multiple voting shares (“Multiple Voting Shares”, and together with the Subordinate Voting Shares, the “Shares”), and two non-interest bearing promissory notes in the aggregate principal amount of \$200,000,000. See “Related Party Transactions.”

In connection with closing of the IPO, we also entered into credit facilities (the “Credit Facilities”) with Royal Bank of Canada and Canadian Imperial Bank of Commerce, comprised of a revolving facility in the aggregate principal amount of up to \$75 million (the “Revolving Credit Facility”) and a term facility in the aggregate principal amount of up to \$25 million (the “Term Facility”). See “Liquidity and Capital Resources – Credit Facilities”.

Our Business

We are a leading and growing supply chain management company with a platform of customized third-party logistics (“3PL”) and specialized transportation solutions for the healthcare sector. We offer services to healthcare manufacturers, wholesalers, distributors and 3PL providers, among others, through a comprehensive platform of high quality, technology-enabled supply chain solutions for a range of products, including pharmaceuticals, biologics, narcotics, precursors, active pharmaceutical ingredients, over-the-counter, natural health, animal health, consumer health, cosmetics, health and beauty aids, and medical devices. We integrate our uniquely designed nation-wide network of facilities, vehicles, personnel and technology systems into our clients’ businesses to offer holistic solutions that span all of our clients’ shipping needs and satisfy the requirements of the highly regulated Canadian healthcare industry. 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. Within our healthcare logistics and specialized transportation operating segments, we offer robust solutions specifically tailored to the healthcare market and generate revenue across five principal product lines: logistics and distribution, packaging solutions, air freight forwarding, ground transportation, and dedicated and last mile delivery.

Management believes we are Canada’s only national third-party service provider focused exclusively on delivering customized, end-to-end logistics and specialized transportation solutions to the healthcare sector. Our 3PL services are provided under our Accuristix brand, through which we provide customized logistics, distribution and packaging solutions to various healthcare manufacturers. Our specialized transportation solutions are offered under our ATS Healthcare brand, where we provide a one-stop shop for our clients’ healthcare transportation needs through our specialized air freight forwarding, ground transportation, dedicated delivery and last mile services. We believe we are a national leader in the Canadian healthcare logistics and specialized transportation markets we serve.

In our healthcare logistics segment, we serve as an extension of our manufacturing clients, leveraging our infrastructure and expertise to manage their supply chain activities, allowing them to focus on other strategic priorities such as sales, marketing, research and development. We focus on serving our logistics clients as comprehensively as possible and incorporate multiple services from all of our related product lines into our customized logistics solutions.

In our specialized transportation segment, we leverage our national infrastructure to offer coast-to-coast delivery, including specialized facilities, multiple modes of transportation and flexible capacity to

accommodate the full range of our clients' logistics and/or transportation needs on an integrated and efficient basis. By combining multiple service offerings, we can effectively provide managed and monitored movement of our clients' temperature sensitive and valuable products through a closed-loop nation-wide system.

We differentiate our services and deliver value to our clients through four competitive strengths: temperature management, quality assurance and regulatory compliance, visibility throughout the supply chain and security. These capabilities are deployed across our nation-wide network of 28 secure, temperature-controlled facilities and the five third-party owned cross-docks that we operate from, by our team of highly-trained employees who are passionate about client service. Our security, information and monitoring systems, as well as our temperature management expertise, allow us to meet and exceed Health Canada guidelines and regulations, ensuring the integrity and quality of our clients' temperature sensitive healthcare goods and data.

Additional information about the Company can be found on our profile on SEDAR at www.sedar.com or on our website at www.andlauerhealthcare.com. Our AIF is available on our profile on SEDAR at www.sedar.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. 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 our service offerings complement one another and allow us to accommodate the full range of 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 expertise and experience to effectively and efficiently optimize their product distribution to clients. We are committed to developing and expanding long-term strategic relationships with our clients to provide improved operational efficiencies and access to value-added services. From manufacturers to distributors to retail locations to front doors across Canada, we store, transport and monitor and manage the temperature conditions of a range of healthcare products. Our trained personnel comply with healthcare industry regulations and best practices.

New Development Projects

We secure client contract wins as a foundation for growth and then add incremental warehousing and distribution square footage through capital efficient leases. Given the required lead-time to build and certify

facilities, as we secure new major client contracts, we typically strategically invest in excess capacity in anticipation of growing client needs, as well as new client opportunities, which enables capital efficient growth. We have followed this strategic approach in the past at our Brampton, Ontario location, where we constructed a new 267,000 square foot facility in 2016 to accommodate a major new client. We are leveraging our experience from the construction of the Brampton facility for the development of our new 220,000 square foot facility in Mississauga, Ontario.

National Demographics and Healthcare Spending

We believe that we are strategically positioned to directly benefit from the strong growth expected in the Canadian healthcare sector, which is driven by a number of favourable trends including an aging population, increased life expectancy and increasing healthcare spending.

Regulatory Environment

In order to maintain the safety, quality and efficacy of healthcare products, government regulations have been introduced to set out rules relating to, among other things, the packaging, warehousing, distribution, transportation and temperature monitoring of such products. The pace 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 specialists, our clients can focus on their core business.

Competition

We believe that we offer a unique set of services in the marketplace and stand apart from other outsourced healthcare service providers and traditional logistics and transportation companies. In particular, we believe our differentiated capabilities, including our temperature management expertise, together with our coast-to-coast distribution network and multiple service offerings uniquely positions us within our industry and sets us apart from companies specializing in global integration and supply chain management, national non-temperature managed solutions, regional temperature managed solutions as well as niche service providers and insourced transportation services. Notwithstanding the foregoing, we do compete with FedEx, Purolator, UPS Supply Chain Solutions, Kuehne + Nagel and Lynden Logistics in our delivery of 3PL services. We also compete with certain regional transportation providers, such as Williams Pharmed Logistics in Quebec and Rogue Transportation Services Inc. in Ontario, as well as Skelton Trucking, primarily in respect of 2°C to 8°C shipments.

Management & Employees

Our employee culture is one of our fundamental strengths and a strategic priority. Our employees are passionate about our business and are dedicated to creating and improving solutions for our clients. We empower our employees through training and professional development programs as well as strong open lines of communication and encourage our employees to suggest ways in which we can improve our operations. As our business has grown we have maintained a close connection to our employee base. We recognize and celebrate our very best employees who act as leaders within our employee team and promote movement within our organization in an effort to retain and encourage our top talent. As a result of these

efforts, we believe we have good relationships with our employees across our operating segments, none of whom are subject to collective bargaining agreements.

Cost Escalation

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, 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 fund our network of facilities, vehicles and logistics equipment and by using third party service providers. We also mitigate our exposure to rising fuel costs through the implementation of fuel surcharge programs, which pass the majority of cost increases to our clients. In addition, we have implemented a number of policies that focus on asset efficiency, including fuel economy, asset utilization, proper repairs and maintenance of equipment, and measured equipment lease renewals. Many of our contracts include cost of living indexes that provide for annual price adjustments which further protect us from the risks of escalating costs.

Acquisitions

We selectively evaluate strategically compelling acquisition opportunities that leverage or expand our differentiated capabilities. In pursuing potential acquisition candidates, we will assess several criteria to expand our domestic platform, including: (i) complementary tuck-ins; and (ii) entry or expansion into growth verticals, new verticals and new service offerings, and will assess opportunities for expansion into the U.S. or international markets through an existing platform that aligns with our core capabilities and existing service offering.

Financial and Operational Highlights

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

Q4 2019 Compared to Q4 2018

Select highlights include the following:

- Revenue increased 6.3% to \$76.6 million, compared to \$72.1 Q4 2018;
- Operating income increased 31.4% to \$11.3 million, compared to \$8.6 million in Q4 2018;
- Net income and comprehensive income increased 19.5% to \$7.1 million, compared to \$5.9 million in Q4 2018;
- EBITDA increased 19.4% to \$17.7 million, compared to \$14.9 million in Q4 2018;
- EBITDA margin increased to 23.1% from 20.6% in Q4 2018;

- We completed the construction of our new Calgary facilities, expanding our logistics and distribution footprint by 23,000 square feet and increasing capacity in our specialty transportation segment;
- We secured a lease on a new 220,000 square-foot facility (commencing July 1, 2020) in the GTA to service a major new client and to add capacity for future growth; and
- We successfully completed our \$172.5 million IPO and commenced trading on the TSX.

Fiscal 2019 Compared to Fiscal 2018

Select highlights include the following:

- Revenue increased 4.7% to \$290.0 million, compared to \$277.0 million in Fiscal 2018;
- Operating income increased 10.1% to \$45.0 million, compared to \$40.9 million in Fiscal 2018;
- Net income and comprehensive income increased to \$30.3 million, from \$28.2 million in Fiscal 2018;
- EBITDA increased 9.6% to \$70.6 million, compared to \$64.4 million in Fiscal 2018; and
- EBITDA margin increased to 24.3% from 23.2% in Fiscal 2018.

How We Assess the Performance of Our Business

We have historically operated and managed our healthcare logistics and specialized transportation operating segments as separate businesses with separate management teams. Our healthcare logistics segment has operated under the brand name Accuristix and our specialized transportation segment has operated under the brand name ATS Healthcare. Following our IPO, both Accuristix and ATS Healthcare have continued to operate autonomously, each having its own management. Over time, as we grow, our operating segments may change. If this occurs, we will reflect the change in our reporting practices.

Both of our operating segments conduct their businesses in a manner that limits capital investments, preferring to lease facilities and certain equipment rather than allocating significant cash flows to capital expenditures. We believe our business model provides us with greater flexibility and lower risks, creating cost savings as compared to more capital expenditure intensive models. Accordingly, lease costs comprise a significant component of our expenses. Under IFRS 16, leases have been capitalized, resulting in depreciation and interest expense rather than direct operating expenses, as would have been seen prior to the adoption of IFRS 16. We believe that the cash flows associated with our lease payments are a relevant metric in evaluating the performance of our business.

Revenue

We generate revenue from the provision of supply chain solutions to the Canadian healthcare sector. Across our logistics and transportation operating segments, we generate revenue across five principal product lines: logistics and distribution, packaging solutions, air freight forwarding, ground transportation, and dedicated and last mile delivery.

Our healthcare logistics segment, which offers services under our Accuristix brand, generates revenue from the provision of logistics and distribution services and packaging solutions to our clients. Services are typically provided under master service agreements with terms that range from three to five years in length. Our logistics contracts typically include a single performance obligation that is satisfied over time as clients simultaneously receive and consume the benefits of our services. For this performance obligation, we recognize revenue at the invoiced amount since this amount corresponds directly to our performance and the value to the client. In some cases, our agreements include other performance obligations related to

managing transportation and other client services which are included in the logistics and distribution product. These services are typically priced at their stand-alone selling prices and are recognized over time on a proportionate and straight-line basis as the client simultaneously receives and consumes the benefits of our services. Intersegment revenue generated by Credo Systems Canada Inc. from the sale of thermal packaging containers to ATS Healthcare, as well as intra-segment revenue between Accuristix and Nova Pack Ltd. (“Nova Pack”) is eliminated on combination.

Our specialized transportation segment, which offers services under our ATS Healthcare brand, generates revenue from the provision of specialized temperature-controlled, as well as non-temperature controlled, ground transportation, air freight forwarding and dedicated and last mile transportation services to our clients. Certain additional services are provided to clients where requested as part of their transportation contracts, such as chain of custody and other incidental services. Transportation revenue is recognized proportionally as a shipment moves from origin to destination and the related costs are recognized as incurred. Performance obligations are short-term, with transit typically taking less than one week. Generally, clients are billed upon shipment of the freight, and remit payment according to approved payment terms. Intersegment revenue generated by ATS Healthcare from the provision of transportation services to Accuristix, on behalf of its logistics clients, is eliminated on combination.

As is customary in our industry, most of our client contracts and transportation pricing terms include fuel-surcharge revenue programs or cost recovery mechanisms to mitigate the effect of fuel price increases over base amounts established in the contract. However, these fuel surcharge mechanisms may not capture the entire amount of changes in fuel prices, and there is also a lag between the payment for fuel and collection of surcharge revenue. Decreases in fuel prices reduce the cost of transportation and services, and will accordingly reduce our revenues and may reduce margins for certain product lines.

Cost of Transportation and Services

Our cost of transportation and services expense includes the cost of providing or procuring freight transportation to our clients. The cost of transportation and services for our specialized transportation segment includes linehaul costs to connect our national network; pick-up and delivery costs paid to brokers, agents, and our drivers; fuel, toll fees and maintenance costs; and inbound and outbound handling costs which are largely comprised of hourly paid dock labour. The cost of transportation and services for our healthcare logistics segment includes purchased transportation expense, including fuel surcharges, sourced from carriers. ATS Healthcare is the largest provider of transportation services to Accuristix. Intersegment purchased transportation expense is eliminated on combination.

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 Expenses (“SG&A”) 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. We expect our SG&A to increase as we incur additional legal, accounting, insurance and other expenses associated with being a public company.

Depreciation & Amortization

Depreciation and amortization charges comprise non-cash charges expensed on the statement of income and comprehensive income to spread the purchase price of assets over their useful lives. Within both of our operating segments, we prefer to 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 expense such as cost of transportation and services, direct operating expense, SG&A, and depreciation and amortization. We do not typically measure “cost of sales or gross profit” as we are a service business.

Other Income

Other income comprises income that does not arise from the Company’s main business, such as exchange gains (losses) and gains resulting from the sale of property, plant and equipment and certain other insignificant sources.

Interest Income

Interest income comprises interest earned on cash and cash equivalents together with interest earned on certain amounts due from related parties.

Interest Expense

Interest expense comprises interest charged to the statement of income and comprehensive income primarily in connection with leased facilities and equipment under IFRS 16. Interest and bank charges and interest paid for amounts due to related parties are also included. In connection with our IPO, we entered into the Credit Facilities. Accordingly, the Company has begun to incur interest expense on the Credit Facilities since December 11, 2019.

Income Tax Expense

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

Non-IFRS Measures

EBITDA

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

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

EBITDA Margin

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

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

EBITDA less Leases and CAPEX

We define EBITDA less Leases and CAPEX as EBITDA less cash payments for leases and capital expenditures.

We believe EBITDA less Leases and CAPEX is a useful measure to assess our financial performance because it provides a measure of our operating earnings after reflecting the cash outflows associated with our leases and capital expenditures, including spending on leases, property plant and equipment and intangibles such as software, but before items which we view as non-operational such as depreciation, amortization, interest expense and taxes. We believe this is a useful measure when comparing our business to others in the sector.

EBITDA less Leases and CAPEX Conversion

We define EBITDA less Leases and CAPEX Conversion as EBITDA less Leases and CAPEX divided by EBITDA.

We believe EBITDA less Leases and CAPEX Conversion is a useful measure to assess our financial performance because it demonstrates our ability to generate EBITDA less Leases and CAPEX in relation to our EBITDA. We believe this is a useful measure when comparing our business to others in the sector.

EBITDA less Leases and CAPEX Margin

We define EBITDA less Leases and CAPEX Margin as EBITDA less Leases and CAPEX divided by revenue.

We believe EBITDA less Leases and CAPEX Margin is a useful measure to assess our financial performance because it allows us to evaluate our ability to generate EBITDA less Leases and CAPEX in relation to the revenues we earn from our clients. We believe this is a useful measure when comparing our business to others in the sector.

Selected Consolidated Financial Information

The following table summarizes our results of operations for the periods indicated. The selected consolidated financial information for Q4 2019, Q4 2018, Fiscal 2019, Fiscal 2018 and Fiscal 2017 has been derived from our consolidated financial statements and related notes.

(\$CAD 000s)	Three Months Ended		Year Ended		
	December 31,		December 31,		
	2019	2018	2019	2018	2017
Revenue					
Logistics & Distribution	22,664	21,046	88,311	85,125	80,895
Packaging	4,892	5,456	21,307	21,305	15,161
Healthcare Logistics Segment	27,556	26,502	109,618	106,430	96,056
Ground Transportation	45,685	42,391	169,040	160,489	143,919
Air Freight Forwarding	5,236	5,336	19,656	19,332	17,696
Dedicated and Last Mile Delivery	4,828	3,771	16,689	13,899	12,327
Intersegment Eliminations	(6,704)	(5,905)	(25,015)	(23,140)	(18,968)
Specialized Transportation Segment	49,045	45,593	180,370	170,580	173,942
Total revenue	76,601	72,095	289,988	277,010	251,030
Operating Expenses					
Cost of transportation and services	32,621	31,392	121,405	116,780	105,150
Direct operating expense	18,586	19,236	74,792	74,190	67,864
Selling, general and administrative expenses	7,543	6,672	23,092	21,683	20,394
Depreciation & amortization	6,503	6,160	25,706	23,491	23,629
	65,253	63,460	244,995	236,144	217,037
Operating income	11,348	8,635	44,993	40,866	33,993
Other (expense) income	(122)	55	(145)	19	439
Interest income	276	278	1,004	879	404
Interest expense	(980)	(800)	(3,503)	(3,048)	(3,135)
Income tax expense	(3,447)	(2,249)	(12,004)	(10,531)	(8,517)
Net income and comprehensive income	7,075	5,919	30,345	28,185	23,184
Net income and comprehensive income attributable to					
Shareholders of the Company	7,075	5,720	29,773	26,723	21,678
Non-controlling interests	-	199	572	1,462	1,506
Earnings per share ⁽¹⁾ – basic	\$0.19	N/A	\$0.79	N/A	N/A
Earnings per share ⁽¹⁾ – diluted	\$0.19	N/A	\$0.79	N/A	N/A
Select financial metrics					
EBITDA	17,729	14,850	70,554	64,376	58,061
EBITDA Margin	23.1%	20.6%	24.3%	23.2%	23.1%
EBITDA less Leases and CAPEX	8,601	8,302	42,326	42,135	36,379
EBITDA less Leases and CAPEX Conversion	48.5%	55.9%	60.0%	65.5%	62.7%
EBITDA less Leases and CAPEX Margin	11.2%	11.5%	14.6%	15.2%	14.5%

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

Consolidated Balance Sheets

(\$CAD 000s)	As At December 31,		
	2019	2018	2017
Select financial position data			
Total assets	212,995	276,577	267,962
Total non-current liabilities	94,795	61,772	60,726

Consolidated Statements of Changes in Equity

(\$CAD 000s)	Three Months Ended December 31,		Year Ended December 31,		
	2019	2018	2019	2018	2017
Select financial data					
Distributions to related parties	(112,016)	(25,850)	(112,016)	(25,850)	(700)
Dividends paid to non-controlling interest	-	(150)	-	(150)	(300)

Reconciliation of Non-IFRS Measures

The following table provides a reconciliation of net income and comprehensive income to EBITDA and to EBITDA less Leases and CAPEX for Q4 2019, Q4 2018, Fiscal 2019 and Fiscal 2018:

(\$CAD 000s)	Three Months Ended December 31,		Year Ended December 31,		
	2019	2018	2019	2018	2017
Net income and comprehensive income	7,075	5,919	30,345	28,185	23,184
Income tax expense	3,447	2,249	12,004	10,531	8,517
Interest income	(276)	(278)	(1,004)	(879)	(404)
Interest expense	980	800	3,503	3,048	3,135
Depreciation & amortization	6,503	6,160	25,706	23,491	23,629
EBITDA	17,729	14,850	70,554	64,376	58,061
Capital expenditures	(3,286)	(1,310)	(5,935)	(2,508)	(2,419)
Lease payments	(5,842)	(5,238)	(22,293)	(19,733)	(19,263)
EBITDA less Leases and CAPEX	8,601	8,302	42,326	42,135	36,379

Results of Operations

Three and Months Ended December 31, 2019 Compared with 2018

The following section provides an overview of our financial performance for Q4 2019 and Q4 2018. Although our business continued to operate in its normal course throughout Q4 2019, a significant event occurred with the completion of our IPO on December 11, 2019. In connection with our IPO, certain expenses, such as transaction costs and the cost of share-based compensation arrangements for directors, officers, and certain key management employees were recognized in Q4 2019. The impact of these costs is discussed in the SG&A section below.

Revenue

Revenue for Q4 2019 increased by 6.3% to \$76.6 million compared with Q4 2018. Revenue growth was led by continued volume growth in ground transportation and by new contracts in logistics and distribution and dedicated and last mile delivery products, resulting in approximately \$4.5 million of incremental revenue.

Healthcare Logistics Segment

Revenue in our healthcare logistics segment increased by 4.0% for Q4 2019, or approximately \$1.1 million, to \$27.6 million, compared with Q4 2018. Revenue growth in this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for Q4 2019 increased by 7.7%, or approximately \$1.6 million, to \$22.6 million, compared with Q4 2018. We did not obtain any significant new clients during the quarter, but revenue was bolstered by higher handling and transportation revenues driven by higher volumes from existing clients.

Packaging

Packaging revenue for Q4 2019 decreased by 10.3%, or approximately \$0.6 million, to \$4.9 million, compared with Q4 2018. Q4 2019 was impacted by the decision of our largest packaging client to defer certain projects until the first quarter of 2020. Accordingly, we expect above average growth for the packaging product in January and February of 2020.

Specialized Transportation Segment

Revenue in our specialized transportation segment for Q4 2019 increased by 7.7%, or approximately \$3.5 million to \$49.0 million, compared with Q4 2018. Revenue growth in this segment was primarily driven by the factors set out below.

Air Freight Forwarding

Air freight forwarding revenue for Q4 2019 decreased by 1.9% or approximately \$0.1 million to \$5.2 million, compared with Q4 2018. Revenue growth for air freight forwarding has been slower than other products as clients generally try to minimize expedited shipping by air due to its relatively high cost as compared to ground transportation.

Ground Transportation

Ground transportation revenue for Q4 2019 increased by 7.8%, or approximately \$3.3 million, to \$45.7 million, compared with Q4 2018. Revenue was primarily impacted by increased volume from our existing client base.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for Q4 2019 increased by 28.0%, or approximately \$1.1 million, to \$4.8 million, compared with Q4 2018. Revenue was primarily impacted by expanded routes for existing clients. Dedicated and last mile delivery growth is expected to continue as Health Canada expands its enforcement of GUI-0069 in connection with temperature-controlled transportation.

Cost of Transportation and Services

Cost of transportation and services for Q4 2019 was \$32.6 million, or 42.6% of revenue, compared with \$31.4 million, or 43.5% of revenue, for Q4 2018. The cost of transportation and services operating ratios

for the three months ended both periods are in line with prior years with no major fluctuations in costs versus revenue.

Direct Operating Expenses

Direct operating expenses for Q4 2019 were \$18.6 million, or 24.3% of revenue, compared with \$19.2 million, or 26.7% of revenue, for Q4 2018. The year-over-year operating ratios for direct operating expenses in relation to revenue are consistent with prior years with no major factors influencing variances. In October 2019 we expanded our ATS branch capacity in Calgary and relocated our Accuristix distribution centre to a new and larger facility in Calgary. Accordingly, we experienced increases in direct operating expenses in November and December, 2019 in relation to both Calgary expansions as we invested to support future growth. These additional costs were offset by improved efficiencies and the recovery of costs in connection with our Calgary relocation from logistics and distribution clients.

Selling, General and Administrative Expenses

SG&A for Q4 2019 was \$7.5 million, or 9.8% of revenue, compared with \$6.7 million, or 9.3% of revenue, for Q4 2018. SG&A expenses for Q4 2019 include IPO transaction costs of approximately \$1.0 million, or 1.2% of revenue, which are incremental to the historical SG&A expense reflected in our operating income. A further \$1.4 million, or 1.8% of revenue, was expensed in connection with the Company's share-based payment arrangements. These increased costs in Q4 2019 were partially offset by a special one-time employee compensation cost in the specialized transportation segment in Q4 2018. The Company expects approximately \$2.0 million of incremental annual costs to be incurred as a result of being a public company in 2020 and each year thereafter as compared to its prior costs as a private company.

Depreciation and Amortization

Depreciation and amortization for Q4 2019 was \$6.5 million compared with \$6.2 million for Q4 2018. The increase in depreciation and amortization of \$0.3 million for Q4 2019 represents a 5.6% year-on-year increase and is attributable to leases for new right of use logistics and transportation equipment to support growth in the specialized transportation segment. Our new leased facilities in Calgary came online during Q4 2019 in connection with our expansion to support future growth, which accounts for the majority of the year-on-year increase.

Other Income/Expense

Other expense for Q4 2019 was \$0.1 million compared with other income of \$0.1 million for Q4 2018. These amounts are immaterial to the overall performance of the Company for these quarters.

Interest Income

Interest income for Q4 2019 was \$0.3 million compared with \$0.3 million for Q4 2018.

Interest Expense

Interest expense for Q4 2019 was \$1.0 million compared with \$0.8 million for Q4 2018. Interest expense related to leased facilities and equipment comprises the significant majority of interest expense; however, \$0.1 million of interest expense was incurred in connection with the Credit Facilities which were entered into in connection with the IPO. The Company expects to continue to hold debt under the Term Facility, which does not have any repayment schedule except as a single repayment at the end of the term, and will incur interest expense on the Term Facility for the duration of the term (four years).

Income Tax Expense

Income tax expense for Q4 2019 was \$3.4 million compared with \$2.2 million for Q4 2018. Income tax expense for Q4 2019 is higher than what would be expected at the statutory rate because deferred tax assets have not been recognized in respect of tax losses related to IPO transaction costs. In addition, deductible temporary differences, comprising IPO transaction costs which have been charged directly to equity, have not yet been recognized. The Company is evaluating alternatives under which sufficient future taxable profit will be available against which the Company can use the benefits therefrom.

Operating Income and Net Income and Comprehensive Income

Operating income for Q4 2019 was \$11.3 million compared with \$8.6 million for Q4 2018, representing an increase of \$2.7 million, or 31.4%.

Net Income and comprehensive income for Q4 2019 increased by 19.5%, or \$1.2 million, to \$7.1 million, from \$5.9 million for Q4 2018. Operating income and net income and comprehensive income increased over the prior year due to the factors discussed above.

EBITDA

EBITDA for Q4 2019 increased by 19.4%, to \$17.7 million, from \$14.9 million for Q4 2018. EBITDA increased over the year due to the factors discussed above.

EBITDA Margin

EBITDA Margin for Q4 2019 improved to 23.1% from 20.6% for Q4 2018. Operating leverage was created for Q4 2019 versus the prior year as increases in our two most significant operating costs (cost of transportation and services and direct operating expenses) were lower than the increases in revenue growth.

Fiscal 2019 Compared With Fiscal 2018

The following section provides an overview of our financial performance during Fiscal 2019 compared with Fiscal 2018.

Revenue

Revenue for Fiscal 2019 increased by 4.7%, or approximately \$13.0 million, to \$290.0 million, compared with Fiscal 2018. Revenue was impacted by a combination of volume growth and price increases in ground transportation, new contracts in logistics and distribution and higher project volumes in packaging. All product lines, except packaging, demonstrated year-on-year growth for 2019.

Healthcare Logistics Segment

Revenue in our healthcare logistics segment for Fiscal 2018 increased by 3.0%, or approximately \$3.2 million, to \$109.6 million, compared with Fiscal 2018. Revenue growth in this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for Fiscal 2019 increased by 3.7%, or approximately \$3.2 million, to \$88.3 million, compared with Fiscal 2018. Revenue growth was primarily driven by the full year impact of new clients on-boarded during 2018 and partial contribution of new clients implemented during 2019.

Packaging

Packaging revenue for Fiscal 2019 was flat at approximately \$21.3 million, compared with Fiscal 2018. Revenue was primarily impacted by a deferral of fourth quarter projects by Nova Pack's largest client to the first quarter of 2020. The Company expects stronger than average quarterly volumes for the first quarter of 2020 as a result.

Specialized Transportation Segment

Revenue in our specialized transportation segment for Fiscal 2019 increased by 5.7%, or approximately \$9.8 million, to \$180.4 million, compared with Fiscal 2018. Revenue growth in this segment was primarily driven by the factors set out below.

Air Freight Forwarding

Air freight forwarding revenue for Fiscal 2019 increased by 1.7%, or approximately \$0.3 million, to \$19.7 million, compared with Fiscal 2018. Revenue was primarily impacted by 3% lower total weight shipped offset by price increases.

Ground Transportation

Ground transportation revenue for Fiscal 2019 increased by 5.3%, or approximately \$8.6 million, to \$169.0 million, compared with Fiscal 2018. Revenue was primarily impacted by continued strong demand for temperature controlled (ambient 15°C to 25°C) transportation services and revenue management activity resulting in price increases. Approximately half of the revenue increase was due to increased year-on-year volume from our existing client base, with the remainder attributed to price increases.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for Fiscal 2019 increased by 20.1%, or approximately \$2.8 million, to \$16.7 million, compared with Fiscal 2018. Year-on-year growth in revenue was driven by expansion of routes from existing clients, as certain wholesale and veterinary distributors deployed temperature-controlled transportation more broadly within Canada to address increased Health Canada enforcement of GUI-0069.

Cost of Transportation and Services

Cost of transportation and services for Fiscal 2019 was \$121.4 million, or 41.9% of revenue, compared with \$116.8 million, or 42.2% of revenue, for Fiscal 2018. The year-over-year improvement as a percentage of revenue was primarily driven by a stabilization of costs for employee drivers and outsourced carriers as the Company experienced the effects of a general shortage of drivers in Fiscal 2018.

Direct Operating Expenses

Direct operating expenses for Fiscal 2019 were \$74.8 million, or 25.8% of revenue, compared with \$74.2 million, or 26.8% of revenue, for Fiscal 2018. The slight year-over-year improvement as a percentage of revenue was primarily driven by improved efficiency through productivity gains and growth in revenue while leveraging our available facility capacity, in addition to improved utilization of our branch facilities.

Selling, General and Administrative Expenses

SG&A for Fiscal 2019 was \$23.1 million, or 8.0% of revenue, compared with \$21.7 million, or 7.8% of revenue, for Fiscal 2018. The year-over-year decline as a percentage of revenue was primarily driven by expenses attributable to the IPO. The Company proactively manages its overhead costs and attempts to limit increases in SG&A costs, including employee costs, to activities that will drive additional revenue.

Depreciation and Amortization

Depreciation and amortization for Fiscal 2019 was \$25.7 million, compared with \$23.5 million for Fiscal 2018. The increase is attributed to continued investment in facilities and equipment to support the Company's growth.

Other Income/Expense

Other expense for Fiscal 2019 was \$(0.1) million, compared with other income of \$0.0 million for Fiscal 2018, due primarily to losses on the disposal of equipment realized in Fiscal 2019.

Interest Income

Interest income for Fiscal 2019 was \$1.0 million, compared with \$0.9 million for Fiscal 2018, due to increased cash and cash equivalents balances throughout the year up to the date of the IPO. The Company's capital structure has changed in connection with the IPO. Moving forward, interest income is expected to be negligible.

Interest Expense

Interest expense for Fiscal 2019 increased to \$3.5 million, compared with \$3.0 million for Fiscal 2018 in connection with increases in leased facilities and equipment to support growth in our business. Interest expense related to leased facilities and equipment comprises the significant majority of interest expense, with interest expense in connection with the Company's Credit Facilities amounting to \$0.1 million for Fiscal 2019 (Fiscal 2018 - \$nil).

Income Tax Expense

Income tax expense for Fiscal 2019 was \$12.0 million, compared with \$10.5 million for Fiscal 2018. Income tax expense for Fiscal 2019 is higher than what would be expected at the statutory rate because deferred tax assets have not been recognized in respect of tax losses related to IPO transaction costs. In addition, deductible temporary differences, comprising IPO transaction costs which have been charged directly to equity, have not yet been recognized. The Company is evaluating alternatives under which sufficient future taxable profit will be available against which the Company can use the benefits therefrom.

Operating Income and Net Income and Comprehensive Income

Operating income for Fiscal 2019 was \$45.0 million, compared with \$40.9 million for Fiscal 2018, comprising an increase of \$4.1 million or 10.1%. Net Income and comprehensive income for Fiscal 2019 increased by 7.7%, or \$2.1 million, to \$30.3 million from \$28.2 million in Fiscal 2018. Operating income and net income and comprehensive income increased over the prior year due to the factors discussed above.

EBITDA

EBITDA for Fiscal 2019 increased by 9.6%, or \$6.2 million, to \$70.6 million from \$64.4 million in Fiscal 2018. EBITDA increased over the year due to the factors discussed above.

EBITDA Margin

EBITDA Margin for Fiscal 2019 improved slightly to 24.3% from 23.2% in Fiscal 2018. Improvements in cost of transportation and services and direct operating expenses more than offset the deterioration of the SG&A expenses (including the one-time transaction costs associated with the IPO).

Summary of Quarterly Results

While there is no significant seasonality to our business, our results are impacted by our clients' storage and shipping activities throughout the year as well as the timing of new client implementations or exits.

The table below sets out our results for each of the eight most recently completed quarters:

(\$CAD 000s) except per share data	4Q-19	3Q-19	2Q-19	1Q-19	4Q-18	3Q-18	2Q-18	1Q-18
Total revenue	76,601	71,040	72,004	70,343	72,095	66,222	67,984	70,709
Operating income	11,348	11,265	11,372	11,008	8,635	9,680	11,391	11,160
Net income and comprehensive income	7,075	7,766	7,958	7,546	5,919	6,561	7,892	7,813
Net income and comprehensive income attributed to shareholders of the Company	7,075	7,766	7,644	7,288	5,720	6,293	7,324	7,386
EBITDA	17,729	17,857	17,680	17,288	14,850	15,587	17,152	16,787
Earnings per share – basic ⁽¹⁾	\$0.19	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Earnings per share - diluted ⁽¹⁾	\$0.19	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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

Revenue has trended upwards through the past eight quarters with the final quarter in 2019 reflecting both strong shipping volumes from our clients as well as the impact of price increases which were contractually implemented in the specialized transportation segment.

Operating income, net income and comprehensive income, and EBITDA for Q4 2018 reflect a one-time special bonus paid to certain executives of \$1.6 million. Operating income, net income and comprehensive income, and EBITDA for Q4 2019 reflect IPO transaction costs and share-based compensation expenses totaling \$2.4 million which are incremental to the historical performance of the Company.

Liquidity & Capital Resources

Overview

Our principal uses of funds are for operating expenses, taxes, interest, capital expenditures, lease payments, and distributions to related parties. We believe that cash generated from our operations, together with amounts available under the Credit Facilities will be sufficient to meet our future operating expenses, taxes, interest, capital expenditures, lease payments and any further distributions to related parties. In addition, we believe that our EBITDA less Leases and CAPEX provides us with significant financial flexibility to service our debt and to pursue our future growth strategies. However, our ability to fund operating expenses, taxes, interest, capital expenditures, future lease payments, and distributions to related parties 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.

Working Capital

The following table presents our working capital position as at December 31, 2019 and 2018:

(\$CAD 000s)	As At December 31,	
	2019	2018
Cash and cash equivalents	18,712	53,657
Accounts receivable	51,060	48,430
Inventories	1,071	1,366
Prepaid expenses and other	2,307	1,448
Due from related parties	239	54,957
Due from Employee Trust	13,875	-
Revolving Credit Facility	(3,929)	-
Accounts payable and accrued liabilities	(24,942)	(27,096)
Current portion of lease liabilities	(19,129)	(17,940)
Income taxes payable	(8,695)	(41)
Working Capital	30,569	114,781

As at December 31, 2019 we had \$30.6 million of working capital compared to \$114.8 million of working capital as at December 31, 2018. The \$84.2 million decrease in working capital is attributed to the Pre-IPO Reorganization. We made net distributions to related parties and paid dividends to non-controlling interests of \$112.0 million in Fiscal 2019 (Fiscal 2018 - \$26.0 million) which reduced our cash and total working capital balances. The year-over-year decrease in working capital was partially offset by a loan made to the Employee Trust in connection with the closing of our IPO.

Credit Facilities

We entered into the Credit Facilities upon closing of our IPO, comprised of the Revolving Credit Facility and the Term Facility. As at December 31, 2019, the aggregate amount outstanding under the Credit Facilities was approximately \$3.9 million under the Revolving Credit Facility and \$25 million under the Term Facility). The Credit Facilities will mature and be due and payable on December 11, 2023.

The Revolving Credit Facility is available to be drawn in Canadian dollars by way of prime rate loans, bankers’ acceptances and letters of credit, and in U.S. dollars by way of base rate loans, LIBOR based loans and letters of credit, in each case, plus the applicable margin in effect from time to time. The Term Facility was drawn in a single Canadian dollar advance on closing of the IPO by way of prime rate loans and bankers’ acceptances.

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 the Company is 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 2019 were \$3.3 million (Q4 2018 - \$1.3 million) and in Fiscal 2019 were \$5.9 million (Fiscal 2018 - \$2.5 million). Capital expenditures have historically been funded through cash flows from operations. Management has traditionally divided its capital expenditures into two subcategories, Capital Expenditures (Maintenance) and Capital Expenditures (Growth), which are further detailed below.

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

Capital Expenditures (Maintenance)

Maintenance CAPEX 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 2019 were \$0.3 million (Q4 2018 - \$0.2 million) and in Fiscal 2019 were \$1.5 million (Fiscal 2018 - \$1.2 million). These capital expenditures have historically been funded through cash flows from operations.

Capital Expenditures (Growth)

Growth CAPEX 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, computer equipment to support new contracts or additional volume from new business. Outlays for growth capital expenditures for Q4 2019 were \$3.0 million (Q4 2018 - \$1.1 million) and in Fiscal 2019 were \$4.4 million (Fiscal 2018 - \$1.3 million) and can range from \$1.0 million up to \$10.0 million in any given year, depending on the underlying expansion need. Growth CAPEX has also historically been funded through cash flows from operations.

Cash Flows

The following table presents cash flows for Q4 2019, Q4 2018, Fiscal 2019 and Fiscal 2018:

(\$CAD 000s)	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
Cash flows				
Cash from Operating Activities	26,581	14,160	61,001	52,338
Cash used in Investing Activities	(3,397)	(1,256)	(6,165)	(2,497)
Cash used in Financing Activities	(40,665)	(6,381)	(89,781)	(46,332)
Net change in cash	(17,481)	6,523	(34,945)	3,509
Select cash flow data				
Capital expenditures	(3,286)	(1,310)	(5,935)	(2,508)
Lease payments	(5,842)	(5,238)	(22,293)	(19,733)
Select financial metrics				
EBITDA less Leases and CAPEX	8,601	8,302	42,326	42,135
EBITDA less Leases and CAPEX Conversion	48.5%	55.9%	60.0%	65.5%
EBITDA less Leases and CAPEX Margin	11.2%	11.5%	14.6%	15.2%

EBITDA less Leases and CAPEX and EBITDA less Leases and CAPEX Conversion

Our EBITDA less Leases and CAPEX, which represents the earnings we generate after cash outflows to support operations and maintain our capital assets, was \$8.6 million for Q4 2019 compared to \$8.3 million for Q4 2018.

Our EBITDA less Leases and CAPEX increased to \$42.3 million in Fiscal 2019 from \$42.1 million in Fiscal 2018. The EBITDA less Leases and CAPEX generated in Fiscal 2019 represented a 60.0% EBITDA less Leases and CAPEX Conversion (Fiscal 2018 – 65.5%), demonstrating our continued ability to finance our ongoing growth and provide shareholders with the opportunity for dividends. EBITDA less Leases and CAPEX in Fiscal 2019 versus Fiscal 2018 reflects increased expenditures associated with the opening of our new facilities in Calgary.

Cash Flow Generated From Operating Activities

Cash flows generated from operating activities for Q4 2019 totaled \$26.5 million and versus \$14.1 million for the same period in 2018. The increases in cash flows generated from operating activities relate principally to normal fluctuations in trade accounts receivable and trade accounts payable balances.

Cash flows generated from operating activities in Fiscal 2019 totaled \$61.0 million (Fiscal 2018 – \$52.3 million). The increase in cash flow from operations is the result of strong and stable margins fueled by organic growth, generated from a mix of new clients, increased pricing and increased volumes, across our five product lines.

Cash Flow (Used In) Investing Activities

Cash flows used in investing activities for Q4 2019 and Fiscal 2019 reflect growth-based capital expenditures of \$3.0 million and \$4.4 million respectively, in connection with the expansion to two facilities in Calgary.

Cash Flow (Used In) Financing Activities

We operate our business by utilizing leases to primarily finance our vehicles and facilities, resulting in significant lease payments on an annual basis. We paid \$22.3 million for leases, including interest expense, in Fiscal 2019 (Fiscal 2018 - \$19.7 million). Further, we made distributions to related parties in Fiscal 2019 of \$112.0 million (Fiscal 2018 – 25.8 million) and paid dividends to non-controlling interests in Fiscal 2018 of \$0.2 million.

Contractual Obligations

As at December 31, 2019, the Company had the following contractual commitments:

- Outstanding letters of guarantee in the amount of \$180 (December 31, 2018 – \$68).
- A lease agreement, entered into by the Company on November 28, 2019, relating to a facility located at 200 Edgeware Road, Brampton, Ontario for a 7-year lease term commencing on July 1, 2020. Total lease commitments over this term amount to \$15,450. In relation to the same facility, the Company entered into a construction agreement on November 28, 2019 with Orlando Corporation Inc., as contractor, and Stevron Holdings Limited, as landlord, committing to construction work of \$2,484, of which the landlord has provided \$1,200 in cash allowances, received in January 2020. Construction of the facility is expected to be completed by June 2020.
- Commitments relating to the leasing of fleet equipment, ranging from 60 to 84 months, beginning upon delivery to the Company of the equipment in 2020, for total lease commitments of \$2,987.

Credit facilities

As at December 31, 2019, the aggregate amount outstanding under the Credit Facilities was approximately \$3.9 million under the Revolving Credit Facility and \$25 million under the Term Facility). The Credit Facilities will mature and be due and payable on December 11, 2023.

Leases

We lease buildings and equipment in the operation of our healthcare logistics and specialized transportation business. Building lease terms range from five to ten years, with many leases including optional extension periods. For Fiscal 2019, building lease liabilities are calculated using our average incremental borrowing rate of 3.75% (Fiscal 2018 – 3.69%). Equipment lease terms range from one to five years. For Fiscal 2019, equipment lease liabilities are calculated using our incremental borrowing rate of 4.07% (Fiscal 2018 – 4.66%) for our specialized transportation segment and 3.95% (Fiscal 2018 – 4.37%) for our healthcare logistics segment.

The following table summarizes our contractual obligations as at December 31, 2019, and 2018 based on undiscounted cash flows:

(\$CAD 000s)	Total	Less than 1 Year	1-5 Years	More than 5 years
Credit Facilities	28,484	-	28,484	-
Lease liabilities	118,818	23,714	71,654	23,450
Other obligations	34,293	33,637	656	-
Total contractual obligations	181,595	57,351	100,794	23,450

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, due from related parties, 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 derecognition is recognized in profit or loss.

Impairment of financial assets

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

For accounts 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 derecognition is also recognized in profit or loss.

Related Party Transactions

Intercompany balances and transactions have been eliminated in our consolidated financial statements.

During the year, 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 on 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, is also our Chief Operating Decision Maker (“CODM”). The CODM regularly reviews financial information at the operating segment level in order to make decisions about resources to be allocated to the segments and to assess their performance. Segment results that are reported to the CODM include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. We evaluate performance based on the various financial measures of our two operating segments.

The amounts below are expressed in thousands of Canadian dollars, unless otherwise specified.

Andlauer Management Group Inc.

As of the date hereof, AMG holds all of the Multiple Voting Shares of the Company and 75,000 Subordinate Voting Shares, representing approximately 67% of the issued and outstanding Shares and 89% of the voting power attached to all of the Shares. AMG is owned and controlled by Michael Andlauer, our Chief Executive Officer and a director of the Company.

In connection with the IPO, AHG acquired the AHG Entities from AMG in consideration for the issuance of: (i) 25,175,000 Multiple Voting Shares, (ii) a non-interest bearing promissory note in the aggregate principal amount of \$186,125 (“Acquisition Note 1”) and (iii) a non-interest bearing convertible promissory note in the principal amount of \$13,875 (“Acquisition Note 2”), which was convertible into 925,000 Subordinate Voting Shares at the option of the holder. Upon closing of our IPO on December 11, 2019, we used the aggregate net proceeds raised from the IPO, totaling \$150,000, together with a draw of \$50,000 from our Credit Facilities, to repay Acquisition Note 1, and make a non-interest bearing loan to the Employee Trust in the principal amount of \$13,875 (the “Employee Trust Loan”). On that same date, AMG converted Acquisition Note 2 into 925,000 Subordinate Voting Shares (which the Employee Trust subsequently acquired using the proceeds from the Employee Trust Loan), and converted 75,000 of the

Multiple Voting Shares received pursuant to the Purchase Agreement into 75,000 Subordinate Voting Shares (which it intends to transfer, at least 180 days after closing of the IPO, to select independent owner-operators engaged by AHG).

AMG provides key management personnel to us for which it receives management fees. We paid management fees of \$670 for Fiscal 2019 (Fiscal 2018 - \$696) to AMG in connection with compensation for key management personnel. We do not expect to continue purchasing key management personnel services from AMG in 2020. All employees involved in the AHG business previously employed by AMG have become our employees.

In Fiscal 2019, we began to recover facility lease costs from AMG. For Fiscal 2019 we recovered \$320 of facility lease costs from AMG. We expect to continue to incur and recover facility lease costs in connection with AMG. In Fiscal 2019, we charged AMG \$12 (Fiscal 2018 - \$12) 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 2019, we expensed \$1,484 (Fiscal 2018 - \$1,046) for leases of logistics and transportation equipment; and \$605 (Fiscal 2018 - \$345) for leases of facilities from APLI. The specific facilities that we lease from APLI are located at: 881 Bell Blvd. W, Belleville, Ontario; 80 – 14th Avenue, Hanover, Ontario; 465 Ofield Road South, Dundas, Ontario; 605 Max Brose Drive, London, Ontario; and 5480 61 Avenue SE, Calgary, Alberta. We expect to continue leasing properties and equipment from APLI. In Fiscal 2019 we charged APLI \$18 (Fiscal 2018 - \$18) for recovery of shared services costs.

9143-5271 Québec Inc.

9143-5271 Québec Inc. is a subsidiary of AMG and leases a facility located at 655 Desserte E. Hwy 13, Laval Québec to the Company. We also lease facilities from arm’s length providers. During Fiscal 2019, we expensed \$1,149 (Fiscal 2018 - \$1,109) for this building. We expect to continue leasing this property.

In Fiscal 2019, we charged 9143-5271 Québec Inc. \$30 (Fiscal 2018 - \$30) for recovery of shared services costs.

Ready Staffing Solutions Inc.

Ready Staffing Solutions Inc. (“RSS”), a company owned by Mr. Andlauer’s spouse, provides us with temporary agency employee services – providing hourly dock labour for our handling operations, principally in the Greater Toronto Area (the “GTA”). We also purchase temporary agency employee services from arm’s length providers. During Fiscal 2019, we expensed \$4,153 (Fiscal 2018 - \$4,176) for purchases of temporary agency employee services from RSS. These expenses primarily relate to the cost of the labour provided through 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 2019, we expensed \$253 (Fiscal 2018 - \$236) for deliveries subcontracted to MCS. We expect to continue subcontracting deliveries to MCS. Similarly, in Fiscal 2019 we invoiced MCS

for \$7 (Fiscal 2018 - \$4) for transportation services provided to MCS. In Fiscal 2019, we charged MCS \$12 (Fiscal 2018 - \$12) for recovery of shared services costs.

McAllister Courier Inc.

McAllister Courier Inc. (“MCI”) is a subsidiary owned 50% 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 2019, we expensed \$972 (Fiscal 2018 - \$1,053) for deliveries subcontracted to MCI. We expect to continue subcontracting deliveries to MCI.

TDS Logistics Ltd.

TDS Logistics Ltd. (“TDS”) is a subsidiary owned 50% by AMG and subcontracts deliveries to us, to take advantage of efficiencies gained through coincidences of delivery. During Fiscal 2019, we charged \$721 (Fiscal 2018 - \$100) for deliveries subcontracted to us by TDS. We also provide TDS with certain shared services, comprising administrative and information technology services and recover certain equipment rental charges from TDS. During Fiscal 2019, we charged TDS \$252 (Fiscal 2018 - \$144) for shared services and recovered \$364 (Fiscal 2018 - \$nil) in equipment rental charges. We expect to continue providing delivery services on behalf of TDS, and shared services and equipment rentals to TDS. In Fiscal 2019, TDS began to provide transportation services to us, offering us additional capacity where we can subcontract deliveries to take advantage of coincidences of delivery. During Fiscal 2019, TDS charged us \$558 (Fiscal 2018 – nil) for deliveries subcontracted to it by AHG. We expect to continue to subcontract deliveries to TDS.

In Fiscal 2018 we provided TDS with facility and equipment leases, which are cost recoveries. For Fiscal 2019 we recovered \$656 (Fiscal 2018 - \$139) of facility lease costs from TDS. We expect to continue to incur and recover these costs in connection with TDS.

Med Express

Med Express is a subsidiary owned 50% by AMG and provides transportation services to the Company, providing extended reach for shipments where the Company does not have facilities or equipment. In Fiscal 2019 we purchased \$1 (Fiscal 2018 – \$nil) in services from Med Express.

Bourbon Street Enterprises Inc.

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

D.C. Racking & Maintenance Inc.

D.C. Racking & Maintenance Inc. (“DCR”) is a subsidiary of BSE and provides warehouse racking installation, maintenance and repairs for our healthcare logistics segment. We also purchase warehouse racking installation, maintenance and repairs from arm’s length providers. During Fiscal 2019, we expensed \$46 (Fiscal 2018 - \$64) for warehouse racking installation, maintenance and repair services provided by DCR. We expect to continue to purchase warehouse racking installation, maintenance and repair services from DCR.

Logiserv

Logiserv Inc. (“Logiserv”) is a subsidiary of BSE and provides us with warehouse racking and racking components. We also purchase warehouse racking and racking components from arm’s length providers. During Fiscal 2019, we capitalized \$335 (Fiscal 2018 - \$177) for purchases of warehouse racking. We expect to continue to purchase warehouse racking and racking components from 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 2019, we purchased \$329 (Fiscal 2018 – \$nil) from C-GHBS. We expect to continue to purchase air travel services from C-GHBS.

Bulldog Hockey Inc.

Bulldog Hockey Inc. (“BHI”) is a subsidiary of AMG and provides sports and entertainment services to us. During Fiscal 2019, we purchased \$25 (Fiscal 2018 - \$28) of sports and entertainment services from BHI on terms which we believe to be arm’s length. We also purchase sports and entertainment services from arm’s length providers. We expect to continue to purchase sports and entertainment services from BHI.

Due from/to related parties

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

(\$CAD 000s)	As At December 31,	
	2019	2018
Accounts receivable		
Andlauer Management Group Inc.	60	7
TDS Logistics Ltd.	380	263
Andlauer Properties and Leasing Inc.	-	113
9143-5271 Quebec Inc.	1	-
Trade receivables due from related parties	<u>441</u>	<u>81</u>
Due from related parties		
Andlauer Management Group Inc.	53	52,603
C-GHBS Inc.	-	1,405
Andlauer Properties and Leasing Inc.	186	685
Habdog Investments Inc.	-	236
TDS Logistics Ltd.	-	28
	<u>239</u>	<u>54,957</u>
Total due from related parties	<u>680</u>	<u>55,340</u>
Accounts payable and accrued liabilities		
Ready Staffing Solutions Inc.	397	330
1708998 Ontario Limited (Medical Courier Services)	-	24
McAllister Courier Inc.	71	92
TDS Logistics Ltd.	100	-
Andlauer Properties and Leasing Inc.	1,196	32
Andlauer Management Group Inc.	1	-
D.C. Racking & Maintenance Inc.	1	1
Logiserv Inc.	69	70
Bulldog Hockey Inc.	28	28
C-GHBS Inc.	153	-
Trade payables due to related parties	<u>2,016</u>	<u>577</u>
Due to related parties		
M. Andlauer	161	20
TDS Logistics Ltd.	174	-
Andlauer Management Group Inc.	-	300
	<u>335</u>	<u>320</u>
Total due to related parties	<u>2,351</u>	<u>897</u>

Critical Accounting Judgements and Estimates

The preparation of the 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, the Company's incremental borrowing rate, valuation of property, plant and equipment, valuation of goodwill and intangible assets, the measurement of identified assets and liabilities acquired in business combinations, share-based

compensation arrangements, the provision for income taxes and other provisions and contingencies. These estimates and assumptions are based on management's best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. Actual results could differ from these estimates. Changes in those estimates and assumptions resulting from changes in the economic environment will be reflected in the consolidated financial statements of future periods. Information about critical judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include the following:

- Determining the expected credit losses related to trade accounts receivable;
- Estimating the useful life of our property, plant and equipment and determining estimates and assumptions related to impairment tests for long-lived assets;
- Estimating the useful life of our intangible assets and determining estimates and assumptions related to impairment tests for intangibles and goodwill;
- Determining the valuation of share-based compensation arrangements;
- Determining estimates and assumptions in measuring deferred tax assets and liabilities;
- Estimating our incremental borrowing rate in connection with measuring lease liabilities; and
- Recognition and measurement of provisions and contingencies.

Significant New Accounting Standards Not Yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2019 reporting periods and that we did not adopt early. Our assessment of the impact of these new standards and interpretations is set out below:

Amendments to IFRS 3, Business Combinations – Change in definition of business

In October 2018, the IASB issued amendments to IFRS 3 Business Combinations that seek to clarify whether a transaction results in an asset or a business acquisition.

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The amendment applies to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. The application of this amendment is not expected to have a material impact on our consolidated financial statements.

Amendments to IAS 1 and IAS 8 - Definition of 'Material'

In October 2018, the IASB refined its definition of material to make it easier to understand. In the amendment, IASB promoted the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the IASB increased the threshold of 'could influence' to 'could reasonably be expected to influence'. The amendments are effective from January 1, 2020 but may be applied earlier. The application of this amendment is not expected to have a material impact on our consolidated financial statements.

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.

In addition to the other risks that we face, which are detailed in the AIF under the heading “Risk Factors”, we have exposure, through our financial assets and liabilities, to the following risks from our use of financial instruments: credit risk, liquidity risk, interest rate risk, and currency risk. Senior management monitors risk levels and reviews risk management activities as they determine to be necessary.

Credit risk

We are exposed to credit risk in the event of non-performance by counterparties in connection with our financial assets, namely cash and cash equivalents, accounts receivable and long-term deposits. We do not typically obtain collateral or other security to support the accounts receivable subject to credit risk but mitigate this risk by performing credit check procedures for new clients and monitoring credit limits for existing clients. Thereby, we deal only with what management believes to be financially sound counterparties and, accordingly, do not anticipate significant loss for non-performance.

The maximum exposure to credit risk for cash and cash equivalents, accounts receivable and long-term deposits approximate the amount recorded on the consolidated balance sheets.

Liquidity risk

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

Our exposure to liquidity risk is dependent on the collection of accounts receivable, or raising of funds to meet commitments and sustain operations. We control liquidity risk by management of working capital, cash flows and the availability of borrowing facilities.

We entered into the Credit Facilities upon closing of our IPO, comprised of the Revolving Credit Facility and the Term Facility. As at December 31, 2019, the aggregate amount outstanding under the Credit Facilities was approximately \$3.9 million under the Revolving Credit Facility and \$25 million under the Term Facility). The Credit Facilities will mature and be due and payable on December 11, 2023. The Revolving Credit Facility is available to be drawn in Canadian dollars by way of prime rate loans, bankers’ acceptances and letters of credit, and in U.S. dollars by way of base rate loans, LIBOR based loans and letters of credit, in each case, plus the applicable margin in effect from time to time. The Term Facility was drawn in a single Canadian dollar advance on closing of the IPO by way of prime rate loans and bankers’ acceptances.

We have entered into Credit Facilities with affiliates of RBC and CIBC, comprised of a Revolving Credit Facility in the aggregate principal amount of up to \$75 million and a Term Facility in the aggregate principal amount of up to \$25 million. The Facilities are available to be drawn in Canadian dollars by way of prime rate loans, bankers' acceptances and letters of credit, and in U.S. dollars by way of base rate loans, LIBOR based loans and letters of credit, in each case, plus the applicable margin in effect from time to time. In order to support future potential growth through acquisitions, the Credit Facilities also include an accordion feature to allow us to increase the commitment under one or both of the Credit Facilities in an aggregate principal amount of up to \$100 million, such that any amounts drawn under the accordion feature would be in addition to the amounts ordinarily available, subject to the agreement of participating lenders and provided that the Company is 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.

Our accounts payable and accrued liabilities are due and payable in the short-term.

Interest rate risk

The Company has a Revolving Credit Facility and Term Facility that each bear interest at a floating rate subject to fluctuations in the bank prime rate. Changes in the bank prime lending rate can cause fluctuations in interest payments and cash flows. The Company does not use derivative financial instruments to mitigate the effect of this risk. The facilities under our Credit Facilities bear interest at prime plus 0.45% per annum. At December 31, 2019, the interest rate was 4.4%.

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

Currency risk

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

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 12, 2020, there were 12,500,000 Subordinate Voting Shares issued and outstanding, 25,100,000 Multiple Voting Shares issued and outstanding (each of which is convertible into Subordinate Voting Shares on a one-for-one basis), and no preferred shares issued and outstanding. In addition, as at such date we had 1,650,000 options issued and outstanding under the Company's omnibus incentive plan, each of which can be exercised or settled for one Subordinate Voting Share. As of the date hereof, AMG holds all of the Multiple Voting Shares and 75,000 of the Subordinate Voting Shares, representing approximately 67% of the issued and outstanding Shares and 89% 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 the board of directors of the Company may consider relevant, the Company expects to declare a quarterly dividend on the Subordinate Voting Shares and Multiple Voting Shares equal to

approximately \$0.05 per share on an ongoing basis. The first dividend that will be payable will be the dividend for the period beginning on December 11, 2019, and ending on March 31, 2020 to shareholders of record on March 31, 2020. This first dividend will be equal to an aggregate amount of approximately \$2,288,712 (or \$0.06087 per Share). Dividends will be 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 accordance with Item 4.3 of National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Company will file an annual certificate in the Form 52-109F1 - IPO/RTO relating to its AIF, annual financial statements and the accompanying notes and this MD&A because it is the first financial year that has ended after the Company became a reporting issuer.

In particular, the certifying officers filing the certificate in the Form 52-109F1 - IPO/RTO required under NI 52-109 are not making any representations relating to the establishment and maintenance of:

- controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

Additional Information

Additional information about the Company can be found on our profile on SEDAR at www.sedar.com or on our website at www.andlauerhealthcare.com. The Company's AIF for Fiscal 2019 is available on our profile on SEDAR at www.sedar.com.

Consolidated Financial Statements of

**ANDLAUER HEALTHCARE
GROUP INC.**

For the years ended December 31, 2019 and 2018



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Andlauer Healthcare Group Inc.

Opinion

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

- the consolidated balance sheets as at December 31, 2019 and December 31, 2018
- the consolidated statements of income and comprehensive income for the years ended December 31, 2019 and December 31, 2018
- the consolidated statements of changes in equity for the years ended December 31, 2019 and December 31, 2018
- the consolidated statements of cash flows for the years ended December 31, 2019 and December 31, 2018
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2019 and December 31, 2018, and its financial performance and its cash flows for the years ended December 31, 2019 and December 31, 2018 in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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



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

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

Emphasis of Matter — Basis of Presentation

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

Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

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

We have nothing to report in this regard.

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the



preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material



uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P', with a small upward tick at the end.

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada

March 12, 2020

Andlauer Healthcare Group Inc.

Consolidated Balance Sheets

As at December 31, 2019 and 2018

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

		December 31,	December 31,
	Note	2019	2018
Assets			
Current assets			
Cash and cash equivalents	5	\$ 18,712	\$ 53,657
Accounts receivable	6	51,060	48,430
Inventories	7	1,071	1,366
Prepaid expenses and other		2,307	1,448
Due from related parties	21	239	54,957
Due from employee trust	2	13,875	-
		<u>87,264</u>	<u>159,858</u>
Non-current assets			
Long-term deposits		938	718
Property, plant and equipment	8	103,326	91,847
Goodwill and intangible assets	9	21,421	23,694
Deferred income taxes	17	46	460
		<u>126,731</u>	<u>116,719</u>
Total Assets		<u>\$ 212,995</u>	<u>\$ 276,577</u>
Liabilities and Equity			
Current liabilities			
Revolving credit facility	11	\$ 3,929	\$ -
Accounts payable and accrued liabilities	10	24,942	27,096
Current portion of lease liabilities	18	19,129	17,940
Income taxes payable		8,695	41
		<u>56,695</u>	<u>45,077</u>
Long-term liabilities			
Lease liabilities	18	69,584	61,080
Deferred income taxes	17	321	372
Due to related parties	21	335	320
Term facility	11	24,555	-
		<u>94,800</u>	<u>62,772</u>
Total Liabilities		<u>151,490</u>	<u>106,849</u>
Equity			
Total net parent investment	2	-	163,811
Non-controlling interest	19	-	5,917
Common share capital	13	549,679	-
Contributed surplus	15	1,394	-
Merger reserve	2	(488,916)	-
Deficit		(652)	-
		<u>61,505</u>	<u>169,728</u>
Commitments and contingencies	20		
Subsequent event	23		
Total Liabilities and Equity		<u>\$ 212,995</u>	<u>\$ 276,577</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Peter Jelley"
Director

"Thomas G. Wellner"
Director

Andlauer Healthcare Group Inc.

Consolidated Statements of Income and Comprehensive Income

For the years ended December 31, 2019 and 2018

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

	Note	December 31, 2019	December 31, 2018
Revenue	16	\$ 289,988	\$ 277,010
Operating Expenses			
Cost of transportation and services		121,405	116,780
Direct operating expenses		74,792	74,190
Selling, general and administrative expenses		23,092	21,683
Depreciation and amortization		25,706	23,491
		<u>244,995</u>	<u>236,144</u>
Operating Income		44,993	40,866
Other income (expense)		(145)	19
Interest income		1,004	879
Interest expense		(3,503)	(3,048)
		<u>42,349</u>	<u>38,716</u>
Income before income taxes		42,349	38,716
Current income tax expense	17	11,641	10,533
Deferred income tax expense (recovery)	17	363	(2)
		<u>12,004</u>	<u>10,531</u>
Net income and comprehensive income		30,345	28,185
Net income attributable to:			
Shareholders of the Company		29,773	26,723
Non-controlling interests	19	572	1,462
		<u>\$ 30,345</u>	<u>\$ 28,185</u>
Net earnings per share attributable to the Common Shareholders of the Company:			
Basic earnings per share	14	\$ 0.79	N/A
Diluted earnings per share	14	\$ 0.79	N/A

See accompanying notes to consolidated financial statements.

Andlauer Healthcare Group Inc.
Consolidated Statements of Changes in Equity
For the years ended December 31, 2019 and 2018

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

	Attributable to Common Shareholders of the Company					Total net parent investment (note 2)	Non- controlling interests (note 19)	Total equity
	Number of shares (thousands) (note 13)	Share capital (notes 1, 13)	Merger reserve (note 2)	Contributed surplus (note 15)	Deficit			
Balance at December 31, 2017	-	\$ -	\$ -	\$ -	\$ -	\$ 157,338	\$ 10,205	\$ 167,543
Net income for the year	-	-	-	-	-	26,723	1,462	28,185
Distributions and dividends	-	-	-	-	-	(25,850)	(150)	(26,000)
Adjustment on acquisition of NCI	-	-	-	-	-	5,600	(5,600)	-
Balance at December 31, 2018	-	-	-	-	-	163,811	5,917	169,728
Net income for the period	-	-	-	-	-	30,425	572	30,997
Distributions and dividends ¹	-	-	-	-	-	(112,016)	-	(112,016)
Adjustment on acquisition of NCI	-	-	-	-	-	6,489	(6,489)	-
Balance at December 10, 2019	-	-	-	-	-	88,709	-	88,709
Net income and comprehensive income for the period December 11-31, 2019	-	-	-	-	(652)	-	-	(652)
Shares issued in connection with the acquisition of the AHG Entities	26,100	391,500	-	-	-	-	-	391,500
Acquisition of the AHG Entities	-	-	(488,916)	-	-	(88,709)	-	(577,625)
Shares issued in connection with the initial public offering	11,500	172,500	-	-	-	-	-	172,500
Transaction costs	-	(14,321)	-	-	-	-	-	(14,321)
Share-based compensation	-	-	-	1,394	-	-	-	1,394
Balance at December 31, 2019	37,600	\$ 549,679	\$ (488,916)	\$ 1,394	\$ (652)	\$ -	\$ -	\$ 61,505

¹Distributions and dividends of \$112,016 in 2019 includes income tax of \$9,379 charged to net parent investment.

See accompanying notes to consolidated financial statements.

Andlauer Healthcare Group Inc.
Consolidated Statements of Cash Flow
For the years ended December 31, 2019 and 2018

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

	Note	December 31, 2019	December 31, 2018
Operating activities			
Net income for the year		\$ 30,345	\$ 28,185
Changes not involving cash:			
Depreciation and amortization		25,706	23,491
Share-based compensation	15	1,394	-
Deferred income tax expense (recovery)	17	363	(2)
Loss on disposal of property, plant and equipment		107	1
		<u>57,915</u>	<u>51,675</u>
Changes in non-cash operating working capital:			
Accounts receivable		(2,630)	(3,447)
Inventories		295	(204)
Accounts payable and accrued liabilities		(2,154)	4,131
Income taxes payable		8,654	12
Net change in other operating working capital balances		(1,079)	171
Cash flows from operating activities		<u>61,001</u>	<u>52,338</u>
Financing activities			
Distributions to related parties	2	(112,016)	(26,000)
Principal repayments on lease liabilities	18	(19,161)	(16,817)
Net change in related party balances		54,733	(3,515)
Loan receivable from employee trust	2	(13,875)	-
Proceeds from revolving credit facility	11	25,000	-
Proceeds from term facility	11	25,000	-
Repayment of revolving credit facility	11	(21,071)	-
Net financing costs on credit facilities	11	(445)	-
Proceeds from issuance of share capital	13	172,500	-
Transaction costs recorded in share capital	1	(14,321)	-
Repayment of promissory note	2	(186,125)	-
Cash flows used in financing activities		<u>(89,781)</u>	<u>(46,332)</u>
Investing activities			
Purchase of property, plant and equipment		(5,935)	(2,508)
Proceeds on disposal of property, plant and equipment		-	89
Purchase of intangible assets	9	(230)	(78)
Cash flows used in investing activities		<u>(6,165)</u>	<u>(2,497)</u>
Net (decrease) increase in cash and cash equivalents		(34,945)	3,509
Cash and cash equivalents, beginning of year		<u>53,657</u>	<u>50,148</u>
Cash and cash equivalents, end of year		<u>\$ 18,712</u>	<u>\$ 53,657</u>

See accompanying notes to consolidated financial statements.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

1. Reporting entity

Andlauer Healthcare Group Inc. (“AHG”) was incorporated under the Ontario Business Corporations Act on November 12, 2019 with its head office located in Woodbridge, Ontario. AHG’s subordinate voting shares are listed on the Toronto Stock Exchange under the stock symbol “AND”. AHG specializes in third party logistics and transportation solutions for the healthcare sector in Canada.

On December 4, 2019, AHG entered into an underwriting agreement and filed a long form prospectus for the purpose of completing an initial public offering, which closed on December 11, 2019 (the “Closing”). AHG raised gross proceeds of \$150,000 through the issuance of 10 million subordinate voting shares at a price of \$15.00 per subordinate voting share. On December 16, 2019, a further 1.5 million subordinate voting shares were issued at a price of \$15.00 per subordinate voting share resulting in \$22,500 of additional gross proceeds pursuant to the exercise of an over-allotment option in the underwriting agreement. Transaction costs of \$15,273 were incurred in connection with the initial public offering, of which \$14,321 have been offset against the proceeds of the subordinate voting shares, and \$952 have been expensed in the period.

Andlauer Management Group Inc. (“AMG”) holds all of the multiple voting shares of AHG and 75,000 subordinate voting shares, representing approximately 67% of the issued and outstanding shares and 89% of the voting power attached to all of the shares. AMG is owned and controlled by Michael Andlauer, Chief Executive Officer and a director of AHG.

2. Basis of presentation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies described herein.

b) Basis of measurement

These consolidated financial statements were prepared on a going concern basis under the historical cost method. Significant accounting policies are presented in note 3 to these consolidated financial statements and have been consistently applied in each of the periods presented. These consolidated financial statements were authorized for issue by the Board of Directors effective March 12, 2020.

These financial statements comprise the consolidated financial results of AHG and Associated Logistics Solutions Inc., Credo Canada Systems Inc., 2186940 Ontario Inc. and their respective subsidiaries (collectively, the “AHG Entities”) as at and for the year ended December 31, 2019 and the combined financial results of the AHG Entities as at and for the year ended December 31, 2018 and up to the date of the initial public offering (collectively the “Company”).

Common control transaction

In connection with a series of transactions that occurred prior to, and on, the date of Closing, AHG acquired a 100% ownership interest in the AHG Entities in exchange for 25.1 million multiple voting shares valued at \$376,500, 1.0 million subordinate voting shares valued at \$15,000 and a promissory note for \$186,125 which was settled with the proceeds of the initial public offering and proceeds from the credit facilities (note 11).

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

2. Basis of presentation (continued)

Common control transaction (continued)

AHG's acquisition of the AHG Entities is a business combination involving entities under common control in which all of the combining entities are ultimately controlled by AMG, both before and after the reorganization transactions were completed. Business combinations involving entities under common control are outside the scope of IFRS 3 *Business Combinations*. AHG accounted for this common control transaction using book value accounting, based on the book values recognized in the financial statements of the underlying entities. This election results in the financial statements being restated for periods prior to the date of obtaining common control, to reflect the combination as if it had occurred from the beginning of the period that the entities were under common control, regardless of the actual date the common control transaction closed.

(i) Total net parent investment

The comparative financial statements for 2018 have been prepared on a combined basis. Accordingly, it is not meaningful to show share capital or provide an analysis of reserves. Therefore, amounts which reflect the carrying value of investments in the combined entities are disclosed as "Total net parent investment", while carrying value of net assets attributable to shareholders other than the Company are presented as "Non-controlling interests" ("NCI"). Since the Company was not an existing legal entity during 2018 and up to December 10, 2019, the combined entities have no historical capital structure. Consequently, earnings per share as required by IAS 33 *Earnings per share* has not been presented for 2018. The amounts reflected in distributions and dividends in the consolidated statements of changes in equity refer to dividends or distributions paid to the parent and dividends paid to NCI. Distributions and dividends of \$112,016, net of \$9,379 of related income tax, were made to the parent in 2019.

(ii) Merger reserve

Pursuant to a share purchase agreement between AHG and its parent, and in connection with a corporate reorganization immediately prior to the initial public offering, AHG acquired a 100% ownership interest in the AHG Entities based on the value of consideration of \$577,625. Total net parent investment as at December 10, 2019 (immediately prior to the Closing) was \$88,709. A merger reserve of \$488,916 is recorded to reflect the difference in carrying value of the net assets acquired and the consideration paid since AHG and the AHG Entities were all related under the common control of AMG at the time of the acquisition.

(iii) Employee trust

An employee trust was established at Closing, the beneficiaries of which will be executive officers and employees of the Company. AHG made a non-interest bearing loan of \$13,875 to the employee trust which the employee trust used to acquire 925,000 subordinate voting shares from AMG. As the subordinate voting shares are allocated and/or distributed to beneficiaries of the employee trust, contributions will be made by the respective employer of any such beneficiary to the employee trust at \$15.00 per subordinate voting share and used by the employee trust to repay the non-interest bearing loan.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

2. Basis of presentation (continued)

c) Basis of combination

(i) Business combinations

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

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

(ii) Subsidiaries

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

The Company's wholly-owned subsidiaries include:

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

¹ Entity has been dormant throughout the entire reporting period.

(iii) Transactions eliminated on consolidation

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

d) Functional and presentation currency

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

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

2. Basis of presentation (continued)

e) Use of estimates and judgments

The preparation of the accompanying 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. Such estimates include the expected credit losses on accounts receivable, the useful life of long-lived assets, the Company's 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 are included in the following notes:

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

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

3. Significant accounting policies

Foreign currency translation

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

Revenue

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those products or services.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The following is a description of the Company's performance obligations for the transportation and logistics reportable segments.

a) Specialized Transportation

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

b) Healthcare Logistics

The Company's healthcare logistics segment generates revenue from providing supply chain services for its customers, including logistics and distribution services and packaging solutions. The Company's contracts typically include a single performance obligation that is satisfied over time as customers simultaneously receive and consume the benefits of the Company's services. For this performance obligation, the Company recognizes revenue at the invoiced amount, which is billed on a fixed price per unit of logistics activities provided in the month, since this amount corresponds directly to the Company's performance and the value to the customer. In some cases, the Company's contracts include other performance obligations related to managing transportation and other customer services which are included in the logistics and distribution product. These services are typically priced at their stand-alone selling prices and are recognized over time on a proportionate and straight-line basis as the customer simultaneously receives and consumes the benefits of the Company's services.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

3. Significant accounting policies (continued)

Revenue (continued)

b) Healthcare Logistics (continued)

In some cases, the contract will include optional services that are priced at their stand-alone selling prices. These services are recognized as revenue when they are provided to the customer.

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

Property, plant and equipment

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

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

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

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

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

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

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

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

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

3. Significant accounting policies (continued)

Goodwill and intangible assets

Recognition and measurement

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

Intangible assets consist of customer relationships and internally generated software.

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

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

Amortization

Goodwill is not amortized.

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

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

Impairment

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

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

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

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

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

3. Significant accounting policies (continued)

Goodwill and intangible assets (continued)

Impairment (continued)

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

Leases

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

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

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

a) For arrangements in which the Company is a lessee

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

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

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

3. Significant accounting policies (continued)

Leases (continued)

a) For arrangements in which the Company is a lessee (continued)

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

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

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

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

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

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

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

c) For arrangements in which the Company is a lessor

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

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

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

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

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

3. Significant accounting policies (continued)

Income taxes

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

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

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

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

Financial instruments

Financial assets

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

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

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

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

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

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

Impairment of financial assets

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

For accounts receivables, the Company applies a simplified approach in calculating expected credit losses (“ECLs”). Therefore the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

Financial liabilities are classified at amortized cost

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

Transaction costs

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

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

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

3. Significant accounting policies (continued)

Inventories

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

Provisions

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

Segmented reporting

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

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

Certain of the Company's operating units provide services to other Company operating units outside of their reportable segment. Billings for such services are based on negotiated rates, which approximates fair value, and are reflected as revenues of the billing segment. These rates are adjusted from time to time based on market conditions. Such intersegment revenues and expenses are eliminated in the Company's consolidated results. The Company's chief executive officer is the Chief Operating Decision Maker ("CODM") for the Company. The CODM regularly reviews financial information at the reporting segment level in order to make decisions about resources to be allocated to the segments and to assess their performance. Segment results that are reported to the CODM include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. The Company evaluates performance based on the various financial measures of its two reporting segments.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

3. Significant accounting policies (continued)

Share-based compensation

The Company has an omnibus stock option plan and records all stock-based payments, including grants of employee stock options, at their respective fair values. The fair value of stock options granted to employees and directors is estimated at the date of grant using the Black Scholes option pricing model. The Company recognizes share-based compensation expense over the vesting period, over the life of the tranche of shares being considered. The Company also estimates forfeitures at the time of grant and revises its estimate, if necessary, in subsequent periods if actual forfeitures differ from these estimates. Any consideration paid by employees on exercising stock options and the corresponding portion previously credited to additional paid-in capital are credited to share capital. The Company's stock option plan is equity-settled.

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

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

Forthcoming standards

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2019 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below:

(a) Amendments to IFRS 3 Business Combinations – Change in definition of business

In October 2018, the IASB issued amendments to IFRS 3 *Business Combinations* that seek to clarify whether a transaction results in an asset or a business acquisition.

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The amendment applies to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. The application of this amendment is not expected to have a material impact on the consolidated financial statements.

(b) Amendments to IAS 1 and IAS 8 - Definition of 'Material'

In October 2018, the IASB refined its definition of material to make it easier to understand. In the amendment, IASB promoted the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the IASB increased the threshold of 'could influence' to 'could reasonably be expected to influence'. The amendments are effective from January 1, 2020 but may be applied earlier. The application of this amendment is not expected to have a material impact on the consolidated financial statements.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

4. Segment reporting

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

The Company evaluates performance based on the various financial measures of its two operating segments. Performance is measured based on segment income or loss before tax. This measure is included in the internal management reports that are reviewed by the Company's CEO and refers to "Income before income taxes" in the consolidated statements of income and comprehensive income. Segment income or loss before tax is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within the same industries. The following table identifies selected financial data as at December 31, 2019 and 2018 and for the years then ended:

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at December 31, 2019 and for the year then ended					
Revenue	\$ 205,385	\$ 109,618	\$ -	\$ (25,015)	\$ 289,988
Segment income before tax	33,995	10,770	(2,416)	-	42,349
Interest income	901	103	-	-	1,004
Interest expense	(1,796)	(1,639)	(68)	-	(3,503)
Depreciation and amortization	16,137	9,569	-	-	25,706
Segment net income	24,861	7,900	(2,416)	(572)	29,773
Segment total assets	125,673	91,837	592,350	(596,865)	212,995
Acquisition of ROU assets	26,311	2,542	-	-	28,853
Capital expenditures	3,744	2,232	-	(41)	5,935
Segment total liabilities	80,287	46,750	43,693	(19,240)	151,490
As at December 31, 2018 and for the year then ended					
Revenue	\$ 193,720	\$ 106,430	\$ -	\$ (23,140)	\$ 277,010
Segment income before tax	29,739	8,977	-	-	38,716
Interest income	1,106	4	-	(231)	879
Interest expense	(1,173)	(2,106)	-	231	(3,048)
Depreciation and amortization	13,768	9,723	-	-	23,491
Segment net income	21,578	6,607	-	(1,462)	26,723
Segment total assets	187,255	93,235	-	(3,913)	276,577
Acquisition of ROU assets	18,643	196	-	-	18,839
Capital expenditures	1,558	1,046	-	(96)	2,508
Segment total liabilities	57,579	53,183	-	(3,913)	106,849

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

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

4. Segment reporting (continued)

An intersegment loan from the Specialized Transportation segment to the Healthcare Logistics segment was repaid during 2018. The intersegment loan balance and related interest income and expense are eliminated from the Company's consolidated results.

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

5. Cash and cash equivalents

	December 31, 2019	December 31, 2018
Bank balances	\$ 18,712	\$ 48,502
Deposits	-	5,155
Cash and cash equivalents	\$ 18,712	\$ 53,657

Cash and cash equivalents includes a \$nil (2018 - \$5,155) short-term deposit with a six-month term that is held by the Company. The deposit bears an annual interest rate of 2.50% and was redeemed on June 6, 2019. Accrued interest at December 31, 2019 is \$nil (2018 - \$7).

6. Accounts receivable

	December 31, 2019	December 31, 2018
Trade receivables	\$ 50,769	\$ 48,424
Trade receivables due from related parties (note 21)	441	383
Impairment loss	(150)	(377)
Accounts receivable	\$ 51,060	\$ 48,430

7. Inventories

Inventories consist of:

	December 31, 2019	December 31, 2018
Packaging inventory	\$ 840	\$ 943
Thermal packaging products and parts	231	423
Inventories	\$ 1,071	\$ 1,366

In 2019, the Company purchased a total of \$5,710 in inventory (2018 - \$6,515) and \$6,005 was recognized as an expense (2018 - \$6,311) during the year and included in direct operating expenses.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

8. Property, plant and equipment

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

	Facilities ¹	Furniture and fixtures	Leasehold improvements	Logistics and transportation equipment ¹	Total
Cost					
Balance at December 31, 2017	\$ 71,485	\$ 7,515	\$ 13,501	\$ 57,978	\$ 150,479
Additions	7,623	2	1,201	12,521	21,347
Dispositions	-	-	-	(175)	(175)
Balance at December 31, 2018	79,108	7,517	14,702	70,324	171,651
Additions	17,708	290	2,033	14,758	34,789
Dispositions	-	-	(330)	-	(330)
Balance at December 31, 2019	\$ 96,816	\$ 7,807	\$ 16,405	\$ 85,082	\$ 206,110
Accumulated depreciation					
Balance at December 31, 2017	19,614	5,191	4,470	29,789	59,064
Depreciation for the year	9,860	423	1,378	9,164	20,825
Dispositions	-	-	-	(85)	(85)
Balance at December 31, 2018	29,474	5,614	5,848	38,868	79,804
Depreciation for the year	11,057	379	1,652	10,115	23,203
Dispositions	-	-	(223)	-	(223)
Balance at December 31, 2019	\$ 40,531	\$ 5,993	\$ 7,277	\$ 48,983	\$ 102,784
Net carrying amounts					
At December 31, 2018	\$ 49,634	\$ 1,903	\$ 8,854	\$ 31,456	\$ 91,847
At December 31, 2019	\$ 56,285	\$ 1,814	\$ 9,128	\$ 36,099	\$ 103,326

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

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

9. Goodwill and intangible assets

	Goodwill	Customer relationships	Software	Proprietary technology	Total
Cost					
Balance at December 31, 2017	\$ 19,720	\$ 22,545	\$ 5,245	\$ 1,156	\$ 48,666
Additions	-	-	78	-	78
Balance at December 31, 2018	19,720	22,545	5,323	1,156	48,744
Additions	-	-	230	-	230
Balance at December 31, 2019	\$ 19,720	\$ 22,545	\$ 5,553	\$ 1,156	\$ 48,974
Accumulated amortization					
Balance at December 31, 2017	\$ -	\$ 18,366	\$ 2,862	\$ 1,156	\$ 22,384
Amortization for the year	-	2,180	486	-	2,666
Balance at December 31, 2018	-	20,546	3,348	1,156	25,050
Amortization for the year	-	1,999	504	-	2,503
Balance at December 31, 2019	\$ -	\$ 22,545	\$ 3,852	\$ 1,156	\$ 27,553
Net carrying amounts					
At December 31, 2018	\$ 19,720	\$ 1,999	\$ 1,975	\$ -	\$ 23,694
At December 31, 2019	\$ 19,720	\$ -	\$ 1,701	\$ -	\$ 21,421

The Company performs annual goodwill impairment testing for the Healthcare Logistics segment. The Company assesses goodwill at the operating segment level, which is the lowest level within the Company at which the goodwill is monitored for internal management purposes. The results of the annual impairment testing determined that the recoverable amount of the Healthcare Logistics operating segment exceeded the respective carrying amount. The recoverable amount of the Healthcare Logistics operating segment was determined using the value in use approach. The value in use methodology is based on discounted future cash flows. Management believes that the discounted future cash flows method is appropriate as it allows more precise valuation of specific future cash flows. Therefore, the Company has determined that no impairment has arisen in connection with the CGU that gave rise to goodwill through the business combination. Accordingly, no impairment loss has been recognized in each of the years ended December 31, 2019 and 2018.

The majority of the customer relationships and proprietary technology reflects intangible assets that arose from a business combination in 2008 of the Specialized Transportation segment and the subsequent disposal of a portion of those operations in 2009. As at November 1, 2009, customer relationships intangibles of \$21,801 were recognized with straight-line amortization over 10 years.

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

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

10. Accounts payable and accrued liabilities

	December 31, 2019	December 31, 2018
Trade payables and accrued liabilities	\$ 22,047	\$ 25,782
Trade payables due to related parties (note 21)	2,016	577
Deferred revenue (note 16)	879	737
	\$ 24,942	\$ 27,096

11. Credit facilities

	December 31, 2019	December 31, 2018
Revolving credit facility	\$ 3,929	\$ -
Term facility	25,000	-
	28,929	-
Less: financing costs	(445)	-
	\$ 28,484	\$ -

Recorded in the consolidated balance sheets as follows:

	December 31, 2019	December 31, 2018
Revolving credit facility	\$ 3,929	\$ -
Term facility	24,555	-
	\$ 28,484	\$ -

The movement in credit facilities from December 31, 2018 is as follows:

	Credit facilities
Balance at December 31, 2018	\$ -
Changes from financing cash flows	
Issuance of borrowings – revolving credit facility	25,000
Issuance of borrowings – term facility	25,000
	50,000
Less: financing costs	(470)
	49,530
Repayment of revolving credit facility	(21,071)
	28,459
Non-cash movements	
Adjustment to capitalized financing costs	25
Balance at December 31, 2019	\$ 28,484

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

11. Credit facilities (continued)

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

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

The credit facilities are subject to customary negative covenants and include financial covenants requiring the Company to maintain at all times a maximum net leverage ratio and a minimum interest coverage ratio, tested on a quarterly basis. At December 31, 2019, the Company is in compliance with all of its covenants under the credit facilities.

The credit facilities will mature and be due and payable on December 11, 2023.

Amounts recognized in the consolidated statements of income and comprehensive income in connection with interest expense for the credit facilities in 2019 was \$68 (2018 – \$nil).

12. Financial instruments and financial risk management

Accounting classifications and fair values

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, deposits, and accounts payable and accrued liabilities. The Company believes that the carrying amount of each of these items is a reasonable approximation of fair value.

Financial risk factors

The Company, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk, interest rate risk, and currency risk. Senior management monitors risk levels and reviews risk management activities as they determine to be necessary.

Credit risk

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

The maximum exposure to credit risk for cash and cash equivalents, accounts receivable and long-term deposits approximate the amount recorded on the consolidated balance sheets.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

12. Financial instruments and financial risk management (continued)

Credit risk (continued)

Accounts receivable aging is set out below:

	December 31, 2019	December 31, 2018
Current (not past due)	\$ 31,198	\$ 25,630
0-30 days past due	12,863	15,288
31-60 days past due	3,567	6,047
More than 61 days past due	1,306	341
Gross	48,934	47,306
Unbilled revenue (note 16)	2,276	1,501
Impairment loss	(150)	(377)
Accounts receivable, net	\$ 51,060	\$ 48,430

Liquidity risk

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

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

As of December 31, 2019, \$3,929 (2018 - \$nil) has been drawn on the \$75,000 revolving credit facility, and \$25,000 (2018 - \$nil) has been drawn on the \$25,000 term facility. There is no amortization of the term facility. The credit facilities are repayable in full on December 31, 2023.

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

Interest rate risk

The Company has a revolving and term credit facilities that bear interest at a floating rate subject to fluctuations in the bank prime rate. Changes in the bank prime lending rate can cause fluctuations in interest payments and cash flows. The Company does not use derivative financial instruments to mitigate the effect of this risk. The facilities under this agreement bear interest at prime plus 0.45% per annum. At December 31, 2019, the interest rate was 4.4%.

Due to timing at which the Company entered into the credit facilities in relation to its year end, there has been no exposure to significant interest rate fluctuations.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

12. Financial instruments and financial risk management (continued)

Currency risk

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

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

Currency risk	December 31, 2019	December 31, 2018
Cash	\$ 544	\$ 491
Accounts receivable	85	108
Accounts payable and accrued liabilities	55	732

13. Share capital

The Company is authorized to issue an unlimited number of subordinate voting shares, an unlimited number of multiple voting shares, and an unlimited number of preferred shares, issuable in series. The subordinate voting shares and multiple voting shares rank *pari passu* with respect to the payment of dividends, return of capital and distribution of assets in the event of liquidation, dissolution, or wind-up. Holders of multiple voting shares are entitled to four votes per multiple voting share, and holders of subordinate voting shares are entitled to one vote per subordinate voting share on all matters upon which holders of shares are entitled to vote.

All of the multiple voting shares and 75 thousand subordinate voting shares are owned by the Company's parent, AMG. The following table summarizes the number of common shares issued (note 1):

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

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

14. Earnings per share

Basic earnings per share

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

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

Diluted earnings per share

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

	December 31, 2019
(in thousands of dollars and number of shares)	
Net income attributable to the common shareholders of the Company	\$ 29,773
Weighted average number of common shares	37,600
Dilutive effect:	
Stock options	169
Weighted average number of diluted common shares	37,769
Earnings per share – diluted	\$ 0.79

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

15. Share-based payment arrangements

Stock option plan (equity-settled)

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

On December 11, 2019 the Board of Directors approved a grant of 1,650 thousand options. Of the options outstanding at December 31, 2019, a total of 700 thousand are held by non-executive directors; 400 thousand are held by executive officers; with the remaining 550 thousand held by key management personnel.

The fair value of the stock options granted was estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

	December 11, 2019
Exercise price	\$ 15.00
Average expected option life	7 years
Risk-free interest rate	1.59%
Expected stock price volatility	24.77%
Average dividend yield	1.33%
Weighted average fair value per option of options granted	\$ 3.60

In connection with the initial public offering, all non-executive directors were awarded 50 thousand options each which vested immediately. A total of 350 thousand options are exercisable at December 31, 2019.

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

	December 31, 2019	
(in thousands of options and in dollars)	Number of options	Weighted average exercise price
Balance at November 12, 2019	-	\$ -
Granted	1,650	15.00
Exercised	-	-
Forfeited	-	-
Balance at December 31, 2019	1,650	15.00
Options exercisable at December 31, 2019	350	\$ 15.00

In 2019, the initial year in which stock options were granted, the Company recognized a compensation expense of \$1,394 with a corresponding increase to contributed surplus.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

16. Revenue

A. Revenue streams

The Company generates revenue primarily from the provision of supply chain transportation and logistics services to its customers. The Company's contracts are typically satisfied over a short period of time. Consequently, the Company applies the practical expedient and does not disclose information related to its remaining performance obligations.

B. Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by major products and service lines. The table also includes a reconciliation of the disaggregated revenue with the Company's reportable segments (note 4).

Major products/service lines	December 31, 2019	December 31, 2018
Logistics and distribution	\$ 88,311	\$ 85,125
Packaging	21,307	21,305
Healthcare Logistics segment	109,618	106,430
Ground transportation	169,040	160,489
Air freight forwarding	19,656	19,332
Dedicated and last mile delivery	16,689	13,899
Intersegment revenue	(25,015)	(23,140)
Specialized Transportation segment	180,370	170,580
Total revenue	\$ 289,988	\$ 277,010

C. Unbilled and deferred revenue

At the end of a reporting period, the Company recognizes unbilled revenue where revenue has been recognized but for which an invoice has not yet been issued. These amounts are disclosed in note 12. The Company's unbilled revenue has increased from 2018 to 2019 throughout the period consistently with the annual growth in revenue.

The Company bills customers for transportation services based on the pick-up date. When shipments remain in transit at the end of a period, the Company defers revenue until the shipments are delivered. The Company does not regularly bill customers in advance for logistics and distribution services. Consequently, fluctuations in deferred revenue will occur year over year and will depend on specifically negotiated payment terms resulting from customer billing requests or concerns related to credit risk. To date, the changes in deferred revenue (note 10) have been largely insignificant. Revenue recognized in 2019 of \$647 (2018 – \$681) was included in the opening deferred revenue balance at the beginning of the year.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

17. Income taxes

A. Amounts recognized in profit or loss

	December 31, 2019	December 31, 2018
Current income tax expense:		
Current taxes on income for the reporting period	\$ 11,718	\$ 10,641
Current taxes referring to previous periods and other adjustments	(77)	(108)
	11,641	10,533
Deferred income tax expense (recovery):		
Origination and reversal of temporary differences	\$ 361	\$ (134)
Impact of change in tax rates of subsidiaries	(21)	4
Deferred taxes referring to previous periods and other adjustments	23	128
	363	(2)
Income tax expense reported to the statements of income and comprehensive income	\$ 12,004	\$ 10,531

Total cash outflow for actual taxes paid in 2019 was \$12,331 (2018 – \$10,100).

B. Reconciliation of effective tax rate

	December 31, 2019	December 31, 2018
Income before income taxes	\$ 42,349	\$ 38,716
Consolidated Canadian federal and provincial income tax rate (26.5% consolidated rate)	26.50%	26.50%
Income tax expense based on statutory rate	\$ 11,222	\$ 10,260
Increase (decrease) in income taxes resulting from non-taxable items or adjustments of prior year taxes:		
Permanent differences	427	61
Impact of varying statutory tax rates of subsidiaries	122	183
Unrecognized tax losses	271	-
Taxes relating to previous periods and other adjustments	(38)	27
Total income tax expense	\$ 12,004	\$ 10,531

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

17. Income taxes (continued)

C. Deferred taxes

	December 31, 2019	December 31, 2018
Deferred tax assets	\$ 46	\$ 460
Deferred tax liabilities	(321)	(372)
Net deferred tax (liability) asset	\$ (275)	\$ 88

D. Movement in deferred tax balances

	December 31, 2019	Movement	December 31, 2018
Plant and equipment	\$ (519)	\$ (259)	\$ (260)
Accounts payable and accrued liabilities	268	(58)	326
Intangibles	709	513	196
Income deferred for tax purposes	(1,496)	(626)	(870)
Finance leases	763	67	696
Net deferred tax asset (liability)	\$ (275)	\$ (363)	\$ 88

E. Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of certain items. The Company is evaluating alternatives under which sufficient future taxable profit will be available against which the Company can use the benefits therefrom. Deductible temporary differences represent costs incurred by the Company related to the acquisition and charged directly to equity.

	2019		2018	
	Gross amount	Tax effect	Gross amount	Tax effect
Deductible temporary differences	\$ 14,321	\$ 3,795	\$ -	\$ -
Tax losses	1,021	271	-	-
	\$ 15,342	\$ 4,066	\$ -	\$ -

The tax losses of \$1,021 will expire in 2039.

F. Uncertainty over income tax treatments

The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

18. Leases

The Company leases buildings and equipment in the operation of its Transportation and Logistics businesses. The Company estimated its incremental borrowing rates for portfolios of leases with similar characteristics, such as similar risk profiles, same or similar types of security, and similar lease terms. Building lease terms range from 5 to 10 years. Facilities lease liabilities are calculated using the Company's incremental borrowing rate based on the specific lease commitments and term for each facility. The average incremental borrowing rate for all facilities in 2019 is 3.75% (2018 – 3.69%). Equipment lease terms range from 1 to 5 years. Equipment lease liabilities are calculated using the operating segment's average incremental borrowing rate on an equipment lease portfolio basis for that year. The average incremental borrowing rate for equipment in 2019 is 4.07% for Specialized Transportation and 3.95% for Healthcare Logistics (2018 – 4.66% Specialized Transportation, 4.37% Healthcare Logistics).

Right of use assets – Facilities	December 31, 2019	December 31, 2018
Opening balance	\$ 49,634	\$ 51,871
Add: additions	17,708	7,623
Less: depreciation	(11,057)	(9,860)
Ending balance	\$ 56,285	\$ 49,634

Right of use assets – Logistics and transportation equipment	December 31, 2019	December 31, 2018
Opening balance	\$ 25,400	\$ 21,788
Add: additions	11,145	11,215
Less: depreciation	(8,527)	(7,603)
Ending balance	\$ 28,018	\$ 25,400

Net carrying amounts of right-of-use assets	December 31, 2019	December 31, 2018
Facilities	\$ 56,285	\$ 49,634
Logistics and transportation equipment	28,018	25,400
Balance	\$ 84,303	\$ 75,034

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

18. Leases (continued)

Lease liabilities – Facilities	December 31, 2019	December 31, 2018
Opening balance	\$ 53,927	\$ 55,394
Add: additions	17,583	7,506
Add: interest expense	2,238	2,205
Less: repayments	(10,562)	(8,973)
Less: interest payments	(2,238)	(2,205)
Ending balance	\$ 60,948	\$ 53,927

Lease liabilities – Logistics and transportation equipment	December 31, 2019	December 31, 2018
Opening balance	\$ 25,093	\$ 21,605
Add: additions	11,146	11,215
Add: interest expense	1,019	828
Less: repayments	(8,474)	(7,727)
Less: interest payments	(1,019)	(828)
Ending balance	\$ 27,765	\$ 25,093

Cash lease principal payments	December 31, 2019	December 31, 2018
Repayments of lease principal	\$ 19,036	\$ 16,700
Pre-payment of leases	125	117
Total lease payments	\$ 19,161	\$ 16,817

Lease liabilities	December 31, 2019	December 31, 2018
Facilities	\$ (60,948)	\$ (53,927)
Logistics and transportation equipment	(27,765)	(25,093)
Balance	\$ (88,713)	\$ (79,020)

Lease liabilities included in consolidated balance sheets	December 31, 2019	December 31, 2018
Current	\$ (19,129)	\$ (17,940)
Non-current	(69,584)	(61,080)
Balance	\$ (88,713)	\$ (79,020)

Maturity analysis for lease liabilities - contractual undiscounted cash flows	December 31, 2019	December 31, 2018
Less than one year	\$ 22,407	\$ 20,798
One to 5 years	58,882	51,003
More than 5 years	19,092	19,120
Total undiscounted lease liabilities	\$ 100,381	\$ 90,921

Amounts recognized in the consolidated statements of income and comprehensive income in connection with interest expense for lease liabilities in 2019 was \$3,257 (2018 – \$3,033). Total cash outflow for leases for 2019 was \$22,418 (2018 – \$19,850).

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

19. Non-controlling interests

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

On July 19, 2018, 15% of the equity interest in Associated Logistics Solutions Inc. was purchased from Bourbon Street Enterprises Inc. reducing Bourbon Street Enterprises Inc.'s NCI from 30% to 15% of Associated Logistics Solutions Inc. The carrying amount of NCI purchased at the time of the transaction was \$5,600. As the transaction was with the ultimate parent the transaction has reduced NCI by \$5,600 and increased net parent investment by the same amount.

The following table summarizes the information relating to the Company's subsidiary that had a material NCI, before any intercompany eliminations in 2018.

December 31, 2018	Associated Logistics Solutions Inc.
NCI percentage	15%
Non-current assets	\$ 69,838
Current assets	22,050
Non-current liabilities	40,109
Current liabilities	12,333
Net Assets	\$ 39,446
Net assets attributable to NCI	5,917
Revenue	104,941
Net Income	6,429
Net income allocated to NCI	1,462
Dividends paid to NCI	(150)
Cash flows from operating activities	18,186
Cash flows used in investment activities	(1,145)
Cash flows used in financing activities	(15,651)
Net increase in cash and cash equivalents	\$ 1,390

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

20. Commitments and contingencies

- (i) The Company is, from time to time, involved in claims, legal proceedings and complaints arising in the normal course of business and provisions for such claims have been recorded where appropriate. The Company does not believe the final determination of these claims will have an adverse material effect on its consolidated financial statements.
- (ii) As at December 31, 2019, the Company had outstanding letters of guarantee in the amount of \$180 (2018 - \$68).
- (iii) On November 28, 2019, the Company entered into a lease agreement related to a facility located at 200 Edgeware Road, Brampton, Ontario for a 7-year lease term commencing on July 1, 2020. Total lease commitments over 7 years is \$15,450. In relation to the same property, on November 28, 2019, the Company entered into a construction agreement with Orlando Corporation Inc. (Contractor) and Stevron Holdings Limited (Landlord) committing to construction work of \$2,484, of which the landlord has provided \$1,200 in cash allowances, received in January 2020. Construction is expected to be completed by June 2020.
- (iv) The Company has made commitments for Fleet equipment, with the terms to begin upon delivery of the equipment in 2020. Commitments range from 60 to 84 months and total \$2,987.

21. Related parties

During the year, the Company entered into transactions with related parties that were incurred in the normal course of business. The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions. All outstanding balances with these related parties are to be settled in cash within two months of the reporting date. None of the balances is 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.

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

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

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

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

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

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

21. Related parties (continued)

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

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

TDS Logistics Ltd. (“TDS”) is a subsidiary owned 50% by AMG and provides transportation services to the Company, providing additional capacity where the Company can sub-contract deliveries to take advantage of coincidences of delivery. Similarly, the Company provides transportation services to TDS. The Company also provides certain shared services (primarily accounting services) to TDS and recovers certain lease costs from TDS.

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

D.C. Racking and Maintenance Inc. is a subsidiary of Bourbon Street Enterprises Inc. (“BSE”), a related party representing the non-controlling interest in Associated Logistics Solutions Inc. It provides maintenance and repairs for the Company’s Healthcare Logistics segment.

Logiserv Inc. provides the Company with warehouse racking. Logiserv is a subsidiary of BSE. The Company also purchases warehouse racking from arm’s length providers.

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

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

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

21. Related parties (continued)

	December 31, 2019	December 31, 2018
Revenue		
Transportation services		
TDS Logistics Ltd.	\$ 721	\$ 100
1708998 Ontario Limited (Medical Courier Services)	7	4
Facility rent recovery		
TDS Logistics Ltd.	656	139
Andlauer Management Group Inc.	320	-
Shared service recovery		
TDS Logistics Ltd.	252	144
Andlauer Properties and Leasing Inc.	18	18
Andlauer Management Group Inc.	12	12
9143-5271 Quebec Inc.	30	30
1708998 Ontario Limited (Medical Courier Services)	12	12
Equipment rental recovery		
TDS Logistics Ltd.	364	-
Expenses		
Transportation services		
McAllister Courier Inc.	972	1,053
1708998 Ontario Limited (Medical Courier Services)	253	236
TDS Logistics Ltd.	558	-
Contract labour services		
Ready Staffing Solutions Inc.	4,153	4,176
Equipment rent		
Andlauer Properties and Leasing Inc.	1,484	1,046
Shared services		
Andlauer Management Group Inc.	670	696
Facility rent		
Andlauer Properties and Leasing Inc.	605	345
9143-5271 Quebec Inc.	1,149	1,109
Sports and Entertainment services		
Bulldog Hockey Inc.	25	28
Maintenance services		
D.C. Racking and Maintenance Inc. and Logiserv Inc.	46	64
Travel services		
C-GHBS Inc.	329	-
Capital expenditures		
Purchases of logistics and transportation equipment		
Logiserv Inc.	335	177

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

21. Related parties (continued)

	December 31, 2019	December 31, 2018
Trade receivables due from related parties		
Andlauer Management Group Inc.	\$ 60	\$ 7
TDS Logistics Ltd.	380	263
Andlauer Properties and Leasing Inc.	-	113
9143-5271 Quebec Inc.	1	-
Total trade receivables	\$ 441	\$ 383
Due from related parties		
Andlauer Management Group Inc.	53	52,603
C-GHBS Inc.	-	1,405
Andlauer Properties and Leasing Inc.	186	685
Habdog Investments Inc.	-	236
TDS Logistics Ltd.	-	28
	239	54,957
Total due from related parties	\$ 680	\$ 55,340
Trade payables due to related parties		
Ready Staffing Solutions Inc.	\$ 397	\$ 330
1708998 Ontario Limited (Medical Courier Services)	-	24
McAllister Courier Inc.	71	92
TDS Logistics Ltd.	100	-
Andlauer Properties and Leasing Inc.	1,196	32
Med Express	1	-
D.C. Racking and Maintenance Inc.	1	1
Logiserv Inc.	69	70
Bulldog Hockey Inc.	28	28
C-GHBS Inc.	153	-
Total trade payables	2,016	577
Due to related parties		
M. Andlauer	161	20
TDS Logistics Ltd.	174	-
Andlauer Management Group Inc.	-	300
	335	320
Total due to related parties	\$ 2,351	\$ 897

The Company paid management fees of \$346 in 2019 (2018 – \$576) to Andlauer Management Group Inc. in connection with compensation for key management personnel.

Andlauer Healthcare Group Inc.

Notes to Consolidated Financial Statements for the years ended December 31, 2019 and 2018

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

22. Capital management

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

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

	December 31, 2019	December 31, 2018
Total liabilities	\$ 151,490	\$ 106,849
Less: cash and cash equivalents	(18,712)	(53,657)
Net debt	132,778	53,192
Net income	30,345	28,185
Interest income	(1,004)	(879)
Interest expense	3,503	3,048
Income tax expense	12,004	10,531
Depreciation and amortization	25,706	23,491
EBITDA	70,554	64,376
Net leverage ratio	1.88	0.83

23. Subsequent event

On March 12, 2020, the Board of Directors declared a dividend of \$0.06087 per subordinate voting and multiple voting share, payable on April 15, 2020 to shareholders of record as of March 31, 2020.

Executive Team



Michael Andlauer
Chief Executive Officer



Peter Bromley, CPA, CA
Chief Financial Officer



Stephen Barr
President, Transportation



Bob Brogan
President, Specialty Solutions



Reg Sheen, CPA, CA
President, Logistics

Board of Directors

Peter Jelley
Chair

Andrew Clark^{1,2,*}
Lead Director

Michael Andlauer
Director and Chief Executive Officer

Rona Ambrose^{1,2,3}
Director

Cameron Joyce
Director

Joseph Schlett
Director

Evelyn Sutherland, CPA, CA^{1,2,3}
Director

Thomas Wellner^{1,3,*}
Director

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

Shareholder Information

Shares Outstanding

Subordinate Voting Shares ("SVS"): 12,500,000
Multiple Voting Shares: 25,100,000

Stock Exchange Listing

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

Investor Contacts

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Bruce Wigle
Investor Relations
T: 647-496-7856
E: Investor.relations@andlauer.ca

Registrar and Transfer Agent

TMX Trust Company

Auditor

KPMG LLP

Legal Counsel

Goodmans LLP

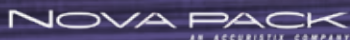


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Platform of Companies



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