Andlauer
HEALTHCARE GROUP

ANNUAL REPORT 2021

A VITAL LINK IN HEALTHCARE

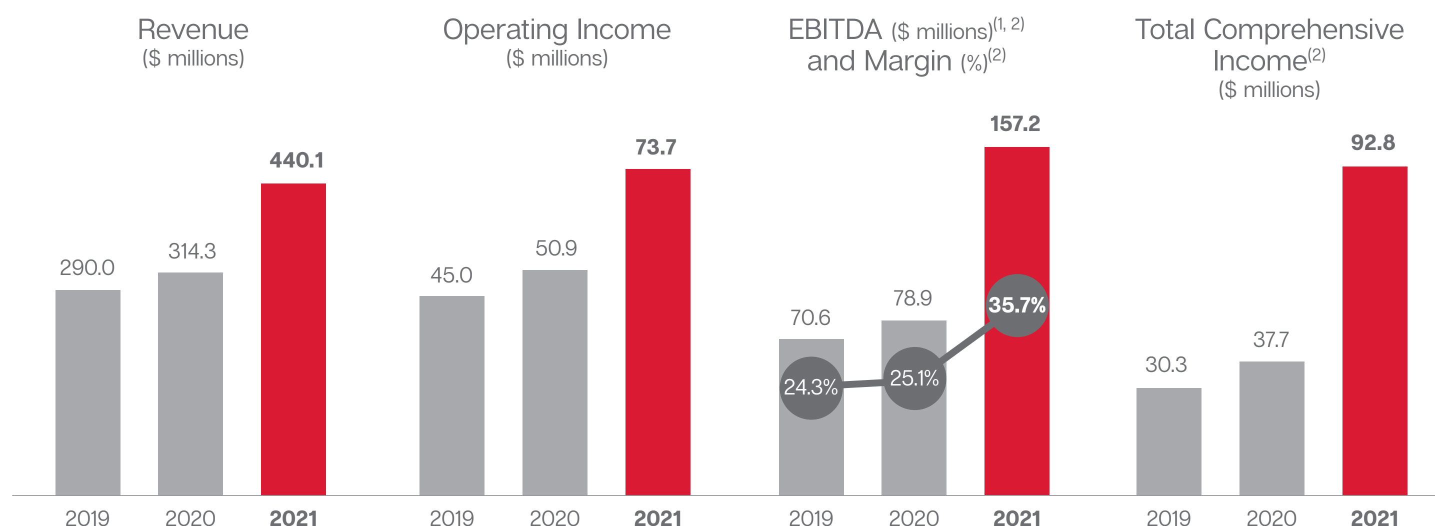
Profile

Andlauer Healthcare Group Inc. (TSX: AND) is a leading and growing supply chain management company offering a robust platform of customized third-party logistics ("3PL") and specialized transportation solutions for the healthcare sector. Our 3PL services include customized logistics, distribution and packaging solutions for healthcare manufacturers across Canada. Our specialized transportation services in Canada, including air freight forwarding, ground transportation, dedicated delivery and last mile services, provide a one-stop shop for 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. We also provide specialized ground transportation services, primarily to the healthcare sector, across the 48 contiguous U.S. states.

Operational Highlights

- We provided logistics and distribution, specialized transportation, and packaging solutions to certain of our manufacturer, 3PL provider, wholesaler and government clients that are involved in the Canadian supply of COVID-19 vaccines and ancillary products;
- On March 1, 2021, we acquired 100% of Skelton Canada Inc. and 49% of Skelton USA Inc. ("Skelton USA") for total aggregate consideration of approximately $114.7 million, before customary working capital adjustments;
- On November 1, 2021, we acquired 100% of T.F. Boyle Transportation, Inc. and 51% of Skelton USA, increasing our aggregate ownership of Skelton USA to 100%;
- Subsequent to year-end, on March 1, 2022, we acquired 100% of Logistics Support Unit (LSU) Inc. for consideration of approximately $30.0 million before customary working capital adjustments; and
- We continued to maintain service levels across our operations, while monitoring the safety measures implemented in response to COVID-19 to prioritize the health and safety of our personnel, clients, and suppliers.

Financial Performance



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

(2) EBITDA, EBITDA margin and total comprehensive income for Fiscal 2021 include a gain of $37.9 million on the step acquisition of 51% of Skelton USA. Excluding the gain, EBITDA was $119.3 million, EBITDA margin was 27.1%, and total comprehensive income was $54.9 million.

Fellow shareholders,

On behalf of the Board of Directors, management of Andlauer Healthcare Group ("AHG") and our team of approximately 2,000 employees and owner/operators across Canada and the United States, I am pleased to present our 2021 Annual Report.

Michael Andlauer, Chief Executive Officer

Despite all the distractions and disruptions that the pandemic threw at all of us, we continued to generate solid organic growth from our core businesses in 2021, while also generating strong incremental growth from strategic acquisitions. Our organic growth has been driven by steady increases in customer demand across our product lines, augmented by expansion initiatives such as the ramp up of our newest facility in Brampton, Ontario – increasing our licensed GMP warehouse capacity – and the continuing expansion of our dedicated and last mile delivery network, particularly in western Canada. Our ongoing role in supporting the distribution of COVID-19 vaccines and ancillary products was even more pronounced this year, and our tuck-in acquisitions of TDS Logistics and McAllister Courier last year also contributed to our growth. Our most impactful growth catalysts in 2021, however, were our acquisitions of Skelton Canada, Skelton USA and Boyle Transportation.

In the first quarter of 2021, we completed the acquisitions of 100% of Skelton Canada and 49% of Skelton USA. Skelton Canada has strengthened our specialized transportation business segment with its nationwide reach and a truck fleet offering validated temperature control, state-of-the-art security systems and real-time shipment monitoring. Skelton Canada's particular expertise in 2°C to 8°C and less than -20°C shipments has significantly enhanced our service offering in this area.

Skelton USA was launched in 2017 and has been growing rapidly since then, successfully leveraging the Skelton brand and reputation. Our initial 49% stake in Skelton USA marked our strategic entry into the United States, giving us an opportunity to learn more about the much larger and fragmented U.S. market through a minority interest in an established operator.

As the year progressed, we saw the strong and growing customer demand for Skelton USA's services and gained a better understanding of the market dynamics south of the border. During our fourth quarter, we acquired the remaining 51% of Skelton USA, bringing our ownership to 100%. Through this process of entering the U.S. market, we were also presented with the opportunity to acquire Massachusetts-based Boyle Transportation. With the U.S. market knowledge we gained through Skelton USA, combined with our extensive due diligence on Boyle Transportation, we seized the opportunity.

Boyle Transportation operates throughout the 48 contiguous United States, and to and from Canada. Boyle provides specialized transportation services to clients in the life sciences and government/defense sectors, with life science customers comprising approximately 75 percent of its consolidated revenue. Similar to AHG and Skelton,

Boyle Transportation adheres to stringent quality and security standards, employs highly trained and dedicated professionals, and continually invests in advanced technology and equipment. Our acquisition of Boyle Transportation closed concurrently with the step acquisition of Skelton USA in early November. The senior management team at Boyle Transportation has also greatly enhanced our insights and knowledge of the U.S. market.

We partially funded the acquisitions of the remaining 51 percent of Skelton USA and 100 percent of Boyle Transportation through a bought deal offering of 3.5 million subordinate voting shares for aggregate gross proceeds of $168.7 million. The offering was priced at $48.20 per share, representing a 221% premium to our $15.00 initial public offering share price in December 2019. The bought deal offering was comprised of 2.0 million subordinate voting shares issued from treasury and 1.5 million subordinate voting shares offered by Andlauer Management Group, thereby enhancing our capital market liquidity. We appreciate the strong support shown by our investors.

Subsequent to year end, we completed the acquisition of Québec-based Logistics Support Unit ("LSU"), a third-party logistics provider offering specialty pharmacy, warehousing, distribution and order management services throughout Canada to pharmaceutical, medical and biotechnology clients. LSU is also the exclusive distributor of immunizing agents for the Québec public health system. We look forward to working with them to continue the LSU brand and legacy as part of the AHG platform.

We are very pleased with the additions of these businesses to our platform and how well the respective management teams have fit in with and added to our leadership group. We share the same focus on exceptional client service and so many similarities in our cultures, including, first and foremost, the absolute importance of our people.

I am proud of our team for their contributions to the successful execution of our growth initiatives, while also managing our day-to-day operations and the many challenges presented by the pandemic. The ongoing collaboration of our management team in monitoring our operations, and our people in adhering to our pandemic safety measures, continues to ensure the timely delivery of essential products to hospitals, pharmacies, and clinics, including the added responsibility of ensuring the safe and secure distribution of COVID-19 vaccines and ancillary products.

We have delivered on each of the key elements of our growth strategy that were outlined at the time of our initial public offering, including: strengthening our clients' connection to our platform by broadening our service offering, increasing our capacity to attract both new clients and new business, and pursuing strategic acquisitions to further strengthen our service offering and our strategic entry into the U.S. market, where we have now established a strong platform for growth.

Our strong performance throughout the pandemic demonstrates the resilient and essential nature of our business. This is due to our exclusive focus on the stable and growing healthcare sector. Spending on healthcare logistics and transportation has been outpacing GDP growth in both Canada and the United States, and this growth is expected to continue, supported by favourable demographic trends, an increasing number of healthcare and adjacent products with unique logistical needs, and continually evolving industry regulation. Further, demand for third-party distribution and ancillary services is increasing as healthcare companies focus more on their core competencies. We are uniquely positioned in a very attractive market.

We have good momentum going into 2022. Looking ahead, we will continue to focus on providing our clients with exceptional service, the welfare of our employees and drivers, and advancing our growth strategy as it makes sense to further enhance our platform. We expect continued growth ahead and we are well positioned to build shareholder value over the long term.

We appreciate your confidence and continued support.

Yours in health,

Michael Andlauer
Chief Executive Officer

ANDLAUER HEALTHCARE GROUP INC.

**Management's Discussion and Analysis
of Financial Condition and Results of Operations
for the fiscal year ended December 31, 2021**

March 2, 2022

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

This management's discussion and analysis of financial condition and results of operations ("MD&A") for the three months and year ended December 31, 2021 should be read in conjunction with Andlauer Healthcare Group Inc.'s audited annual consolidated financial statements for the fiscal year ended December 31, 2021, along with the related notes thereto. This MD&A is presented as of March 2, 2022 and is current to that date unless otherwise stated.

All references in this MD&A to the "Company", "AHG", "us", "our" or "we" refer to Andlauer Healthcare Group Inc., together with our direct and indirect subsidiaries, on a consolidated basis, which is referred to as "the Company" in our financial statements. Additionally, all references to "Q4 2021" are to the three months ended December 31, 2021; "Q3 2021" are to the three months ended September 30, 2021; "Q2 2021" are to the three months ended June 30, 2021; "Q1 2021" are to the three months ended March 31, 2021; "Q4 2020" are to the three months ended December 31, 2020; "Q3 2020" are to the three months ended September 30, 2020; "Q2 2020" are to the three months ended June 30, 2020; "Q1 2020" are to the three months ended March 31, 2020; "Fiscal 2022" are to the year ending December 31, 2022; "Fiscal 2021" are to the year ended December 31, 2021; "Fiscal 2020" are to the year ended December 31, 2020 and "Fiscal 2019" are to the year ended December 31, 2019.

Cautionary Note Regarding Forward-Looking Information

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

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

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

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

- the impact of the COVID-19 pandemic on our operations, business and financial results including the Canadian supply of COVID-19 vaccines;
- the impact of changing conditions in the healthcare logistics and transportation services market;
- risks and liabilities associated with the transportation of dangerous goods;
- our ability to comply with U.S. foreign ownership, control or influence mitigation measures;
- our ability to execute our growth strategies;
- increasing competition in the healthcare logistics and transportation services market in which we operate;
- volatility in financial markets;
- changes in the attitudes, financial condition and demand of our target market;
- developments and changes in applicable laws and regulations;
- our ability to source and complete acquisitions;
- our ability to successfully integrate businesses and assets that we acquire;
- our ability to retain existing clients and develop new clientele;
- our ability to retain members of our management team and key personnel;
- increases in driver compensation and the ability to attract and retain employees;
- our ability to expand into additional markets; and
- such other factors discussed in greater detail under "Risk Factors" in this MD&A and in our Annual Information Form dated March 2, 2022 for Fiscal 2021 (the "AIF") which is available on our profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

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

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

Although we have attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other risk factors not presently known to us or that we presently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, investors should not place undue reliance on forward-

looking information, which speaks only as of the date made. The forward-looking information contained in this MD&A represents our expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made), and are subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

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

Basis of Presentation

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

Non-IFRS Measures

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

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

For quantitative reconciliations of net income and comprehensive income to EBITDA for Q4 2021, Fiscal 2021, Q4 2020 and Fiscal 2020, please see "Reconciliation of Non-IFRS Measures" below.

Overview

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

We are a leading and growing supply chain management company with a platform of customized third-party logistics ("3PL") and specialized transportation solutions for the healthcare sector. We offer services to healthcare manufacturers, wholesalers, distributors and 3PL providers, among others, through a comprehensive platform of high quality, technology-enabled supply chain solutions for a range of products, including: pharmaceuticals, vaccines, biologics, narcotics, precursors, active pharmaceutical ingredients, over-the-counter, natural health, animal health, consumer health, cosmetics, health and beauty aids, and

medical devices. We integrate our uniquely designed nation-wide network of facilities, vehicles, personnel and technology systems into our clients' businesses to offer holistic solutions that span all of our clients' shipping needs and satisfy the requirements of the highly regulated Canadian healthcare sector. During Fiscal 2021, we expanded our specialized transportation capabilities, through acquisitions, into truckload services for the healthcare sector in the United States.

We differentiate our service offerings and deliver value to our clients through our competitive strengths in temperature management, quality assurance and regulatory compliance, technology-enabled visibility throughout the supply chain and security. We are committed to developing and expanding long-term strategic relationships with our clients to provide improved operational efficiencies and access to value-added services. We generate revenue across five principal product lines: logistics and distribution, packaging solutions, air freight forwarding, ground transportation, and dedicated and last mile delivery.

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

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

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

In our specialized transportation segment, we leverage our national infrastructure to offer coast-to-coast delivery, including specialized facilities, multiple modes of transportation and flexible capacity to accommodate the full range of our clients' logistics and/or transportation needs on an integrated and efficient basis. By combining multiple service offerings, we can effectively provide managed and monitored movement of our clients' temperature sensitive and valuable products through a closed-loop nation-wide system.

Our competitive strengths in temperature management, quality assurance and regulatory compliance, visibility throughout the supply chain and security are deployed across our Canada-wide network of 30 secure, temperature-controlled facilities, the six third-party owned cross-docks that we operate from and by our team of highly-trained employees. Our security, information and monitoring systems, as well as our temperature management expertise, allow us to meet and exceed Health Canada guidelines and regulations, ensuring the integrity and quality of our clients' temperature sensitive healthcare goods and data.

We also have four facilities in the United States following our acquisitions of Skelton USA and Boyle Transportation.

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

Summary of Factors Affecting Performance

We believe that our performance and future success depend on a number of factors that present significant opportunities for us. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below and in the "Risk Factors" section of this MD&A and in our AIF.

Service Offering

We believe that offering a platform of services designed specifically for the healthcare sector puts us in a unique position as a provider of supply chain solutions. Our competitive strengths in temperature management, quality assurance and regulatory compliance, visibility throughout the supply chain and security allow us to provide healthcare clients with specialized, integrated, end-to-end supply chain solutions. Through our five principal, complementary service offerings: logistics and distribution, packaging solutions, air freight forwarding, ground transportation, and dedicated and last mile delivery, we accommodate our clients' specialized supply chain needs on an integrated and efficient basis.

Relationships with Manufacturers and Distributors

We believe that our market position is strengthened by the desire of our clients to increasingly outsource their supply-chain management to specialized service providers with the healthcare quality systems, operational expertise and experience to efficiently optimize their product distribution. We are committed to developing and expanding long-term strategic relationships with our clients to provide improved operational efficiencies and access to value-added services. From manufacturers to distributors to retail locations to front doors across Canada and the United States, we store, transport and monitor and manage the temperature conditions of a range of healthcare products. Our trained personnel comply with healthcare industry regulations and best practices.

New Development Projects

We secure client contract wins as a foundation for growth and then add incremental warehousing and distribution square footage through capital efficient leases. Given the required lead-time to build and license facilities, as we secure new major client contracts, we typically strategically invest in excess capacity in anticipation of growing client needs, as well as new client opportunities, which enables capital efficient growth.

Demographics and Healthcare Spending

We believe that we are strategically positioned to directly benefit from the strong growth expected in the North American healthcare sector, which is driven by a number of favourable trends including an aging population, increased life expectancy, increasing healthcare spending, and an increasing number of healthcare products requiring unique logistics needs. Vaccines and biologics, for example, are generally temperature sensitive and require varying degrees of temperature conditions for transportation and storage.

Regulatory Environment

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

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

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

Competition

We believe that we offer a unique set of services in the marketplace and stand apart from other outsourced healthcare service providers and traditional logistics and transportation companies. In particular, we believe our differentiated capabilities, including our temperature management expertise, together with our coast-to-coast distribution network in Canada and multiple service offerings, uniquely positions us within our industry and sets us apart from companies specializing in global integration and supply chain management, national non-temperature managed solutions, regional temperature managed solutions as well as niche service providers and insourced transportation services. Notwithstanding the foregoing, we do compete with 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 in Canada, such as Williams Pharmalogistics in Quebec and Rogue Transportation Services Inc. in Ontario.

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

Acquisitions

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

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

On March 1, 2021, we acquired 100% of Skelton Canada Inc. ("Skelton") and 49% of Skelton USA Inc. ("Skelton USA" and together with Skelton, the "Skelton Companies") which enhanced our platform with expanded national 2-8°C specialized temperature-controlled capabilities and provided us with a strategic entry into the U.S. market.

On November 1, 2021, we acquired 100% of T.F. Boyle Transportation, Inc. ("Boyle Transportation"), which provides specialized transportation services to clients in the life sciences and government/defense sectors, and the remaining 51% of Skelton USA, increasing our aggregate ownership of Skelton USA to 100%.

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

Management & Employees

Our employee culture is one of our fundamental strengths and a strategic priority. Our employees are passionate about our business and are dedicated to creating and improving solutions for our clients. We empower our employees through training and professional development programs and maintain open lines of communication that encourage our employees to suggest ways in which we can improve our operations. We recognize and celebrate employees who act as leaders within our team and promote movement within our organization in an effort to retain and encourage our top talent. As a result of this collaborative employee culture, we have fostered strong relationships with our employees across our operating segments, none of which are subject to collective bargaining agreements.

Cost Management

In order to provide the services that we offer, we incur various operating costs. These costs include amongst others, labour, rent, fuel, equipment, and insurance. We are susceptible to increases in the price of these items, many of which can fluctuate, often due to factors beyond our control, such as regional and global supply and demand dynamics, political events, global pandemics, terrorist activities, the strength of the Canadian dollar relative to other currencies, and natural disasters.

To mitigate the risk of cost escalation, we focus on operational excellence, synergies between our product lines and cost controls. We rely on, among other things, long-term planning, budgeting processes, and internal benchmarking to achieve our profitability targets. Additionally, we mitigate the risk of inflation by utilizing leases to finance our network of facilities, many of our vehicles and our logistics equipment, as well as by using third-party service providers. We also mitigate our exposure to rising fuel costs through the implementation of fuel surcharge programs, which pass the majority of cost increases to our clients. In addition, we have implemented a number of policies that focus on asset efficiency, including fuel economy, asset utilization, proper repairs and maintenance of equipment, and measured equipment lease renewals. Many of our contracts include cost escalation indexes that provide for annual price adjustments which further protect us from escalating costs.

Financial and Operational Highlights

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

Q4 2021 Compared to Q4 2020

Select highlights include the following:

- Revenue increased 53.6% to $133.0 million, compared to $86.6 million in Q4 2020;
- Operating income increased 50.2% to $21.5 million, compared to $14.3 million in Q4 2020;
- Net income, which includes a gain on the step acquisition of Skelton USA of $37.9 million, increased by more than 200% to $53.1 million, compared to $13.9 million in Q4 2020;
- Total comprehensive income increased to $56.0 million, compared with $13.9 million in Q4 2020;
- EBITDA was $73.7 million in Q4 2021. EBITDA, excluding the impact of the gain on step acquisition of Skelton USA, increased 62.9% to $35.8 million, compared to $22.0 million in Q4 2020;
- EBITDA Margin was 55.4% in Q4 2021. EBITDA Margin, excluding the impact of the gain on step acquisition, was 26.9%, compared to 25.4% in Q4 2020;
- During Q4 2021, we continued to provide logistics and distribution, specialized transportation, and packaging solutions to certain of our manufacturer, 3PL provider, wholesaler and government clients that are involved in the Canadian supply of COVID-19 vaccines and ancillary products. In Q4 2021, our COVID-19 vaccine-related revenue comprised approximately 5.0% of total revenue (effectively nil in Q4 2020);
- On October 26, 2021, together with Andlauer Management Group Inc. ("AMG"), we completed a bought deal offering of 3.5 million Subordinate Voting Shares at a price of $48.20 per Subordinate Voting Share for aggregate gross proceeds of $168.7 million (the "Offering"). The Offering was comprised of 2.0 million Subordinate Voting Shares issued from treasury and offered by AHG for gross proceeds of $96.4 million to the Company, which we used to pay the cash portion of the purchase price payable in connection with the acquisitions of Boyle Transportation and Skelton USA, and 1.5 million Subordinate Voting Shares offered by AMG, for gross proceeds to AMG of $72.3 million;
- On November 1, 2021, we acquired 100% of Boyle Transportation and 51% of Skelton USA, increasing our aggregate ownership of Skelton USA to 100%. These acquisitions enhance our platform with expanded U.S. domestic specialized temperature-controlled capabilities and broaden our strategic entry into the U.S. market. Boyle Transportation and Skelton USA accounted for approximately $19.0 million of consolidated revenue during Q4 2021; and
- We continued our business continuity incident response management in connection with the ongoing COVID-19 pandemic and successfully maintained service levels while proactively implementing measures across our operations to prioritize the health and safety of our personnel, clients, and suppliers.

Fiscal 2021 Compared to Fiscal 2020

Select highlights include the following:

- Revenue increased 40.0% to $440.1 million, compared to $314.3 million in Fiscal 2020;
- Operating income increased 44.7% to $73.7 million, compared to $50.9 million in Fiscal 2020;
- Net income increased by more than 100% to $90.0 million, including the impact of a gain on the step acquisition of the Company's equity-accounted investee (Skelton USA), compared to $37.7 million

in Fiscal 2020. Net income excluding the gain on step acquisition was $52.0 million for Fiscal 2021;

- Total comprehensive income was $92.8 million, compared to $37.7 million in Fiscal 2020;
- EBITDA was $157.2 million in Fiscal 2021. EBITDA, excluding the gain on step acquisition, increased 51.1% to $119.3 million, compared to $78.9 million in Fiscal 2020;
- EBITDA Margin was 35.7% in Fiscal 2021. EBITDA Margin, excluding the impact of the gain on step acquisition, was 27.1%, compared to 25.1% in Fiscal 2020;
- During Fiscal 2021, we provided logistics and distribution, specialized transportation, and packaging solutions to certain of our manufacturer, 3PL provider, wholesaler and government clients that are involved in the Canadian supply of COVID-19 vaccines and ancillary products. In Fiscal 2021, approximately 4.0% of total revenue was derived from our clients that are involved in the Canadian supply of COVID-19 vaccines; and
- On March 1, 2021, we acquired 100% of Skelton and 49% of Skelton USA for total aggregate consideration of approximately $114.7 million, before customary working capital adjustments. Skelton added approximately $33.6 million of revenue during Fiscal 2021.

Subsequent to Q4 2021

- On March 1, 2022, the Company acquired 100% of the issued and outstanding shares of LSU for consideration of approximately $30 million, before customary working capital adjustments. LSU is a third-party logistics provider offering specialty pharmacy, warehousing, distribution and order management services throughout Canada to national and international companies as well as government clients in the pharmaceutical, medical and biotechnology sectors. AHG financed the acquisition through the issuance of 154,639 subordinate voting shares and cash of approximately $22.5 million. The Company financed the cash portion of the purchase price through a combination of cash on hand and by drawing on its Credit Facilities (as defined below).

How We Assess the Performance of Our Business

We have historically operated and managed our healthcare logistics and specialized transportation segments as separate businesses with separate management teams. Our healthcare logistics segment has operated under the brand name Accuristix and our specialized transportation segment has operated under the brand names ATS Healthcare, ATS Dedicated and Skelton. Following our initial public offering ("IPO") completed December 11, 2019, both Accuristix and ATS Healthcare have continued to operate autonomously, each having its own management. Skelton, which we acquired on March 1, 2021 and Boyle Transportation and Skelton USA, which we acquired on November 1, 2021, which are reported in the specialized transportation segment and, also operate autonomously, as they did prior to their respective acquisitions. Over time, as we grow, our operating segments may change. If this occurs, we will reflect the change in our reporting practices.

Except for tractors and trailers purchased by Skelton and Boyle Transportation, our operating segments conduct their businesses in a manner that limits capital investments, preferring to lease facilities and certain equipment rather than allocating significant cash flows to capital expenditures. We believe our business model provides us with greater flexibility, cost savings and lower risks, as compared to more capital expenditure intensive models. Accordingly, lease costs comprise a significant component of our expenses. Under IFRS 16 – Leases, leases have been capitalized, resulting in the costs associated with our leases being recorded as depreciation and interest expense. We believe that the cash flows associated with our lease payments are a relevant metric in evaluating the performance of our business.

Revenue

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

Our healthcare logistics segment, which offers services under our Accuristix brand, generates revenue from the provision of logistics and distribution services and packaging solutions to our clients. Services are typically provided under master service agreements with terms that range from three to five years in length. Our logistics contracts typically include a single performance obligation that is satisfied over time as clients simultaneously receive and consume the benefits of our services. For this performance obligation, we recognize revenue at the invoiced amount since this amount corresponds directly to our performance and the value to the client. In some cases, our agreements include other performance obligations related to managing transportation and other client services which are included in the logistics and distribution product. These services are typically priced at their stand-alone selling prices and are recognized over time as the client simultaneously receives and consumes the benefits of our services. Intersegment revenue generated by Credo Systems Canada Inc. from the sale of thermal packaging containers to ATS Healthcare, as well as intra-segment revenue between Accuristix and Nova Pack Ltd. ("Nova Pack") is eliminated on consolidation.

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

On November 1, 2021 we acquired the remaining 51% interest in Skelton USA and a 100% interest in Boyle Transportation, both of which provide specialized temperature-controlled services to healthcare companies in the United States. These acquisitions align with our specialized transportation segment in all material respects except that they focus on full truckload ground transportation services.

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

Cost of Transportation and Services

Our cost of transportation and services expense includes the cost of providing or procuring freight transportation to our clients. The cost of transportation and services for our specialized transportation segment includes: linehaul costs to connect our national network; pick-up and delivery costs paid to brokers, agents, and our drivers; fuel, toll fees and maintenance costs; and inbound and outbound handling costs

which are largely comprised of hourly paid dock labour. The cost of transportation and services for our healthcare logistics segment includes purchased transportation services, including fuel surcharges, sourced from carriers. ATS Healthcare is the largest provider of transportation services to Accuristix, followed by Skelton. Intersegment purchased transportation expense is eliminated on consolidation.

Direct Operating Expenses

Direct operating expenses are both fixed and variable and consist of operating costs related to our facilities (including our distribution centres, branches and the cross-docks that we operate from). Direct operating expenses consist mainly of personnel costs and facility and equipment expenses such as property taxes, utilities, equipment maintenance and repair, costs of materials and supplies, security and insurance expenses. We note that under IFRS 16 the costs associated with our leases are not recognized in our direct operating expenses.

Selling, General and Administrative Expenses

Selling, General and Administrative ("SG&A") expenses primarily consist of the cost of salaries and benefits for executive and certain administration functions, including information technology, sales and client service, finance and accounting, professional fees, facility costs, legal costs and other expenses related to the corporate infrastructure required to support our business.

Depreciation & Amortization

Depreciation and amortization charges comprise non-cash charges expensed on the statement of income and comprehensive income to spread the purchase price of assets over their useful lives. Within both of our operating segments, we lease facilities and certain equipment rather than allocating significant cash flows to capital expenditures. We believe this approach provides us with greater flexibility and lower risks and results in cost savings as compared to capital expenditure intensive models. Accordingly, lease costs comprise a significant component of our expenses. Under IFRS 16, leases have been capitalized, resulting in depreciation and interest expense rather than direct operating expense.

Operating Income

Operating Income measures the amount of profit derived from our operations after deducting operating expenses such as cost of transportation and services, direct operating expense, SG&A, and depreciation and amortization. We do not typically measure "cost of sales or gross profit" as we are a service business.

Gain on Step Acquisition of Equity-Accounted Investee

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

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

Following the acquisition of a 49% interest in Skelton USA on March 1, 2021, we determined that AHG did not control Skelton USA until the remaining 51% of Skelton USA was acquired on November 1, 2021. Accordingly, between March 1, 2021 and October 31, 2021, we have accounted for this investment in Skelton USA using the equity method of accounting. Under the equity method of accounting, an equity investment is initially recorded at cost and is subsequently adjusted to reflect the investor's share of the net profit or loss of the investee. From November 1, 2021 forward, Skelton USA is consolidated with AHG in accordance with IFRS 10 – Consolidated Financial Statements.

Interest Expense

Interest expense comprises interest charged to the statement of income and comprehensive income primarily in connection with leased facilities and equipment under IFRS 16, and for borrowings under our Credit Facilities.

Interest Income

Interest income comprises interest earned on cash and cash equivalents. In Q4 2021, we sub-leased a facility to a third party that had previously been classified as a right-of-use asset. We derecognized net book value from right-of-use assets and established a net investment sub-lease in connection with this facility. Interest income includes interest generated by this sub-lease.

Other Income/Expense

Other income (expense) comprises income or expenses that do not arise from our main business, such as exchange gains (losses) and gains resulting from the sale of property, plant and equipment and certain other insignificant sources.

Income Tax Expense/Recovery

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

Foreign Currency Translation Adjustment

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

Non-IFRS Measures

EBITDA

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

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

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

EBITDA Margin

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

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

Selected Consolidated Financial Information

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

Consolidated Statements of Income and Comprehensive Income

($CAD 000s)	Three Months Ended December 31,		Year Ended December 31,		
	2021	2020	2021	2020	2019
Revenue					
Logistics & distribution	29,521	26,067	115,255	96,976	88,311
Packaging solutions	4,351	3,924	20,072	19,380	21,307
Healthcare Logistics segment	33,872	29,991	135,327	116,356	109,618
Ground transportation	85,268	48,391	261,870	177,170	169,040
Air freight forwarding	10,024	6,091	29,214	22,482	19,656
Dedicated and last mile delivery	14,282	10,979	52,260	29,795	16,689
Intersegment revenue	(10,421)	(8,820)	(38,556)	(31,463)	(25,015)
Specialized Transportation segment	99,153	56,641	304,788	197,984	180,370
Total revenue	**133,025**	**86,632**	**440,115**	**314,340**	**289,988**
Operating expenses					
Cost of transportation and services	65,708	38,542	201,784	131,392	121,405
Direct operating expense	21,279	18,775	84,861	75,374	74,792
Selling, general and administrative expenses	10,903	7,310	37,051	28,613	23,092
Depreciation & amortization	13,683	7,724	42,716	28,022	25,706
	111,573	72,351	366,412	263,401	244,995
Operating income	**21,452**	**14,281**	**73,703**	**50,939**	**44,993**
Gain on step acquisition of equity-accounted investee	37,921	-	37,921	-	-
Share of profit of equity-accounted investee, net of tax	371	-	2,469	-	-
Interest expense	(1,565)	(1,030)	(6,219)	(4,595)	(3,503)
Interest income	32	39	198	285	1,004
Other income (expense)	264	(41)	368	(49)	(145)
Income tax expense (recovery)	(5,371)	620	(18,486)	(8,866)	(12,004)
Net income	**53,104**	**13,869**	**89,954**	**37,714**	**30,345**

($CAD 000s)	Three Months Ended December 31,		Year Ended December 31,		
	2021	2020	2021	2020	2019
Other comprehensive income					
Net income	53,104	13,869	89,954	37,714	30,345
Other comprehensive income	2,889	-	2,889	-	-
Total comprehensive income	**55,993**	**13,869**	**92,843**	**37,714**	**30,345**
Total comprehensive income attributable to					
Shareholders of the Company	55,993	13,869	92,843	37,714	29,773
Non-controlling interests	-	-	-	-	572
Earnings per share – basic	$1.29	$0.37	$2.30	$1.00	$0.79
Earnings per share – diluted	$1.26	$0.36	$2.25	$0.98	$0.79

($CAD 000s)	Three Months Ended December 31,		Year Ended December 31,		
	2021	2020	2021	2020	2019
Select financial metrics[1]					
EBITDA	73,691	21,964	157,177	78,912	70,554
EBITDA Margin	55.4%	25.4%	35.7%	25.1%	24.3%
EBITDA excluding gain on step acquisition	35,770	21,964	119,256	78,912	70,554
EBITDA Margin excluding gain on step acquisition	26.9%	25.4%	27.1%	25.1%	24.3%

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

Consolidated Balance Sheets

($CAD 000s)	As at December 31,		
	2021	2020	2019
Select financial position data			
Total assets	644,169	252,797	212,995
Total non-current liabilities	201,521	110,394	94,795

Consolidated Statements of Changes in Equity

($CAD 000s)	Three Months Ended December 31,		Year Ended December 31,		
	2021	2020	2021	2020	2019
Select financial data					
Distributions to related parties	-	-	-	-	112,016
Dividends	1,924	1,880	7,854	7,929	-

Reconciliation of Non-IFRS Measures

The following table provides a reconciliation of net income and comprehensive income to EBITDA for Q4 2021, Q4 2020, Fiscal 2021, Fiscal 2020 and Fiscal 2019:

($CAD 000s)	Three Months Ended December 31,		Year Ended December 31,		
	2021	2020	2021	2020	2019
Net income	**53,104**	**13,869**	**89,954**	**37,714**	**30,345**
Income tax expense (recovery)	5,371	(620)	18,486	8,866	12,004
Interest expense	1,565	1,030	6,219	4,595	3,503
Interest income	(32)	(39)	(198)	(285)	(1,004)
Depreciation & amortization	13,683	7,724	42,716	28,022	25,706
EBITDA[1]	**73,691**	**21,964**	**157,177**	**78,912**	**70,554**
Gain on step acquisition of equity-accounted investee	(37,921)	-	(37,921)	-	-
EBITDA[1] excluding gain on step acquisition	**35,770**	**21,964**	**119,256**	**78,912**	**70,554**

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

Results of Operations

Three months ended December 31, 2021 compared with 2020

The following section provides an overview of our financial performance for Q4 2021 compared to Q4 2020.

Revenue

Revenue for Q4 2021 increased by 53.6% to $133.0 million, compared with $86.6 million in Q4 2020. Our Skelton, Skelton USA and Boyle Transportation acquisitions accounted for approximately $30.9 million of the $46.4 million increase with the remaining growth attributable to organic growth as described below. Approximately 5.0% of our consolidated revenue for Q4 2021 was generated by working with manufacturer, 3PL, distributor, and government clients involved in the supply of vaccines and related products in connection with the COVID-19 pandemic.

Healthcare Logistics Segment

Revenue in our healthcare logistics segment for Q4 2021 was $33.9 million, an increase of 12.9%, or approximately $3.9 million, compared with Q4 2020. The increase in revenue for this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for Q4 2021 was $29.5 million, an increase of 13.3%, or approximately $3.5 million, compared with Q4 2020. The increase reflects greater outbound order handling activities.

Packaging Solutions

Packaging revenue for Q4 2021 was $4.4 million, an increase of 10.9%, or approximately $0.4 million, compared with Q4 2020. However, packaging revenue for Q4 2021 remained approximately $0.5 million, or 11.1%, below Q4 2019 revenue. We expect that revenue for this product may not fully recover all of its reduced or deferred business until the consumption of consumer healthcare products returns to pre-pandemic levels.

Specialized Transportation Segment

Revenue in our specialized transportation segment for Q4 2021 was $99.2 million, an increase of 75.1%, or approximately $42.5 million, compared with Q4 2020. Revenue growth in this segment was primarily driven by the factors set out below.

Ground Transportation

Ground transportation revenue for Q4 2021 was $85.3 million, an increase of 76.2%, or approximately $36.9 million, compared with Q4 2020. The increase reflects incremental revenue from our Skelton, Skelton USA, and Boyle Transportation acquisitions of approximately $30.8 million, with the remainder attributable to higher volume from our existing client base and higher fuel costs passed through to customers as a component of our pricing.

Air Freight Forwarding

Air freight forwarding revenue for Q4 2021 was $10.0 million, an increase of 64.6%, or approximately $3.9 million, compared with Q4 2020. The significant increase was primarily attributable to increased volume in Q4 2021 as our clients attempted to minimize service disruptions in British Columbia arising from the “atmospheric river” weather events that occurred in November 2021, which severed regional road and rail links to Vancouver due to flooding and landslides. We expect air freight volume to continue to be higher than historical levels during the early part of Q1 2022, but we believe volume will to return to normal levels within Q2 2022. In addition, we expect to experience increased linehaul costs for ground transportation in Q1 2022, which will be passed on to our customers, as the damaged infrastructure is rebuilt in British Columbia.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for Q4 2021 was $14.3 million, an increase of 30.1%, or approximately $3.3 million, compared with Q4 2020. Our TDS acquisition, which was completed on October 1, 2020, has been reflected in our results for a full twelve months, accordingly the majority of the growth is attributable to incremental revenue from route expansion in Western Canada and increases in fuel costs passed on to customers.

Cost of Transportation and Services

Cost of transportation and services for Q4 2021 was $65.7 million, or 49.4% of revenue, compared with $38.5 million, or 44.5% of revenue, for Q4 2020. The higher cost of transportation and services is primarily attributable to an approximate 4.1% increase in volume in our ATS Healthcare business as compared to Q4 2020, the acquisitions of Skelton, Skelton USA, and Boyle Transportation, and higher fuel costs in line with the increases in revenue related to fuel prices. The increase in the operating ratio for Q4 2021 as compared to Q4 2020 reflects our Skelton, Skelton USA, and Boyle Transportation acquisitions, which have increased the relative proportion of our specialized transportation segment as a percentage of our total consolidated revenue and cost profiles.

Direct Operating Expenses

Direct operating expenses for Q4 2021 were $21.3 million, or 16.0% of revenue, compared with $18.8 million, or 21.7% of revenue, for Q4 2020. The $2.5 million increase is primarily attributable to growth in our Accuristix logistics and distribution operations, and investments made to expand our ATS Healthcare network in Canada. Our acquisitions (Skelton, Skelton USA and Boyle Transportation), which are included in our specialized transportation segment, have lower facility-related costs compared to our healthcare logistics segment, which results in a lower direct operating expense operating ratio in Q4 2021 as compared to Q4 2020.

During Q4 2021, the Canada Emergency Wage Subsidy ("CEWS") program concluded, and we recognized approximately forty thousand dollars (0.0% of revenue) in connection with our packaging operations as a reduction to payroll expense. In Q4 2020, we recognized $0.6 million, or 0.7% of revenue, as a reduction to payroll expense for CEWS.

Selling, General and Administrative Expenses

SG&A expenses for Q4 2021 were $10.9 million, or 8.2% of revenue, compared with $7.3 million, or 8.4% of revenue, for Q4 2020. The $3.6 million increase in Q4 2021 is primarily attributable to our acquisitions (Skelton, Skelton USA, and Boyle Transportation) and approximately $0.8 million of professional fees related to the Boyle Transportation acquisition, partially offset by a $0.3 million reduction in the costs attributable to share-based compensation expenses related to our IPO. The decrease in SG&A expenses as a percentage of revenue reflects operating leverage generated within SG&A functions compared to revenue growth.

Depreciation and Amortization

Depreciation and amortization for Q4 2021 was $13.7 million, an increase of 77.1% compared with $7.7 million for Q4 2020. The increase is primarily attributable to depreciation and amortization related to our Skelton, Skelton USA, and Boyle Transportation acquisitions.

Gain on Step Acquisition of Equity-Accounted Investee

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

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

For Q4 2021, our 49% share of total comprehensive income of Skelton USA, comprising results for the month of October 2021, was $0.4 million compared with $nil for Q4 2020.

Interest Expense

Interest expense for Q4 2021 was $1.6 million compared with $1.0 million for Q4 2020. Interest expense related to leased facilities and equipment comprises the majority of interest expense; however, $0.3 million of interest expense was incurred in Q4 2021 in connection with the Credit Facilities. Borrowing under our Credit Facilities was increased in connection with the acquisitions of Skelton and Skelton USA on March 1, 2021. Accordingly, interest expense in connection with debt incurred under our Credit Facilities increased by approximately $0.2 million in Q4 2021 compared with Q4 2020.

We expect to continue to hold debt under the Term Facility (as defined below), which does not have any repayment schedule except as a single repayment at the end of the four-year term and will incur interest expense until maturity on March 1, 2025. We intend to reduce amounts drawn on our Revolving Credit Facility (as defined below) with free cash flow from operations. During Q4 2021, we reduced our borrowing under our Revolving Credit Facility by $9.0 million.

Interest Income

Interest income for Q4 2021 and Q4 2020 was negligible. Interest income is generated on our cash and cash equivalents balances and is earned in connection with our sub-lease of a facility to a third party.

Other Income/Expense

Other income was approximately $0.3 million for Q4 2021, the largest components of which relate to gains on the sale of fixed assets and foreign exchange gains, compared to a negligible expense amount in Q4 2020. These amounts are immaterial to our overall performance for Q4 2021 and Q4 2020.

Income Tax Expense/Recovery

Income tax expense for Q4 2021 was $5.4 million. Our effective tax rate is close to the statutory rate of 26.5% for Q4 2021 after removing the effect of the gain on step acquisition of equity-accounted investee, non-deductible share-based compensation expenses, and the inclusion of the share of profit of our equity-accounted investee, net of tax.

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

Operating Income and Net Income

Operating income for Q4 2021 was $21.5 million, an increase of $7.2 million, or 50.2%, compared with $14.3 million for Q4 2020. Approximately $3.5 million of the increase is attributable to our acquisitions of Skelton, Skelton USA, and Boyle Transportation, with the remainder attributable to organic growth.

Income before tax for the Specialized Transportation segment was $56.3 million for Q4 2021, compared with $10.9 million for Q4 2020. The increase was significantly impacted by the gain on step acquisition of $37.9 million in connection with Skelton USA. In addition, approximately $3.5 million of the increase is attributable to our acquisitions of Skelton, Skelton USA, and Boyle Transportation, with the remainder attributable to organic growth.

Income before tax for the Healthcare Logistics segment was $3.2 million for Q4 2021 compared with $2.6 million for Q4 2020. The increase reflects greater outbound order handling activities in line with our revenue growth for the period.

Net income for Q4 2021 of $53.1 million was significantly impacted by the gain on step acquisition of our equity-accounted investee of $37.9 million, while net income for Q4 2020 was impacted by the deferred income tax recovery of approximately $4.3 million. However, higher segment net income before eliminations for both our healthcare logistics and specialized transportation operating segments also contributed to the increased profitability on a consolidated basis.

Foreign Currency Translation Adjustment

Foreign exchange differences of $2.9 million have been recognized in other comprehensive income for Q4 2021. This reflects assets and liabilities of Skelton USA and Boyle Transportation which have been translated to Canadian dollars at the exchange rate as at the December 31, 2021 and revenues and expenses which have been translated to Canadian dollars at exchange rates that approximate those on the date of the underlying transaction.

Total Comprehensive Income

Total comprehensive income attributable to the owners of the Company was $56.0 million for Q4 2021 compared to $13.9 million for Q4 2020. Q4 2021 is the first quarter in which total comprehensive income differs from net income due to the acquisition of foreign operations (Skelton USA and Boyle Transportation) resulting in foreign currency translation adjustments as described above.

EBITDA

EBITDA for Q4 2021 increased by more than 200% to $73.7 million, from $22.0 million for Q4 2020. EBITDA excluding the gain on step acquisition of our equity-accounted investee was $35.8 million, which increased over Q4 2020 due to the factors discussed above and reflects the incremental contributions of our acquisitions and organic growth in both of our operating segments.

EBITDA Margin

EBITDA Margin for Q4 2021 was 55.4%. EBITDA Margin excluding the gain on step acquisition was 26.9% compared with 25.4% for Q4 2020. The performance of our two operating segments continues to result in strong and stable EBITDA Margins at the higher end of our historical range. In addition, the Skelton business in Canada has a margin profile at the high end of the specialized transportation segment margin range which positively impacts our overall margin. Inter-segment eliminations have increased with the Skelton Companies acquisitions, which have also contributed to our improved EBITDA Margin. The margin profiles of Skelton USA and Boyle Transportation are in line with AHG's consolidated EBITDA range, but on the lower end of our historical specialized transportation margin range.

Year Ended December 31, 2021 compared with 2020

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

Revenue

Revenue for Fiscal 2021 increased by 40.0% to $440.1 million, compared with $314.3 million in Fiscal 2020. From October 1, 2020 through November 1, 2021 we made five acquisitions (TDS, MCI, Skelton, Skelton USA, and Boyle Transportation) that have impacted Fiscal 2021 results. Revenue increases attributable to our acquisitions, in aggregate, accounted for $77.1 million of the $125.8 million increase from Fiscal 2020, with the remaining increase attributable to organic growth in both of our specialized transportation and healthcare logistics segments. In Fiscal 2021, approximately 4.0% of our consolidated revenue was generated by working with manufacturer, 3PL, distributor, and government clients involved in the supply of COVID-19 vaccines and related products (e.g., test kits and personal protective equipment).

Healthcare Logistics Segment

Revenue in our healthcare logistics segment for Fiscal 2021 was $135.3 million, an increase of 16.3%, or approximately $19.0 million, compared with Fiscal 2020. Revenue growth in this segment was primarily driven by the factors set out below.

Logistics & Distribution

Logistics and distribution revenue for Fiscal 2021 was $115.3 million, an increase of 18.8%, or approximately $18.3 million, compared with Fiscal 2020. COVID-19 vaccine distribution comprised approximately $11.4 million, or 11.7%, of new business growth in Fiscal 2021 and a large new logistics and distribution client implementation commenced in July 2020 which also contributed to revenue growth. Our existing client base contributed approximately $6.9 million, or 7.1%, to Fiscal 2021 revenue growth – aligned with our mid-to-high single digit percentage growth expectations.

Packaging Solutions

Packaging revenue for Fiscal 2021 was $20.1 million, an increase of 3.6% compared with Fiscal 2020. Since the COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020, we limited the number of associates in our packaging operations to allow for physical distancing in accordance with public health guidelines which reduced our operating capacity for more than a year. At various times during Fiscal 2021, we were able to safely ease limitations on the number of associates in our operations and gradually restore our operating capacity to near pre-pandemic levels. However, revenue in Fiscal 2021 remained below our pre-pandemic Fiscal 2019 revenue of $21.3 million.

Specialized Transportation Segment

Revenue in our specialized transportation segment for Fiscal 2021 was $304.8 million, an increase of 53.9%, or approximately $106.8 million, compared with Fiscal 2020. Revenue growth in this segment was primarily driven by the factors set out below.

Air Freight Forwarding

Air freight forwarding revenue for Fiscal 2021 was $29.2 million, an increase of 29.9%, or approximately $6.7 million, compared with Fiscal 2020. The increase was primarily attributable to volume increases in Fiscal 2021 as compared to Fiscal 2020, including the impact of the British Columbia weather events in Q4 2021 described above, while approximately 24.3% of the increase was related to increased revenue related to fuel cost increases in Fiscal 2021.

Ground Transportation

Ground transportation revenue for Fiscal 2021 was $261.9 million, an increase of 47.8%, or approximately $84.7 million, compared with Fiscal 2020. Approximately $37.3 million, or 44.1%, of the increase is attributable to the Skelton acquisition; and approximately $19.0 million, or 22.5% of the increase is attributable to the Skelton USA and Boyle Transportation acquisitions. The remaining increase is attributable to increased volume in our ATS Healthcare business (approximately $15.9 million), rate increases, and fuel-related revenue.

Dedicated and Last Mile Delivery

Dedicated and last mile delivery revenue for Fiscal 2021 was $52.3 million, an increase of 75.4%, or approximately $22.5 million, compared with Fiscal 2020. Approximately 75% of the increase reflects the acquisition of TDS, with the remaining increase attributable to expanded routes for existing clients.

Cost of Transportation and Services

Cost of transportation and services for Fiscal 2021 was $201.8 million, or 45.8% of revenue, compared with $131.4 million, or 41.8% of revenue, for Fiscal 2020. The increased cost of transportation and services and the operating ratio for Fiscal 2021 reflects the addition of our Fiscal 2020 and Fiscal 2021 acquisitions, which have increased the relative proportion of our specialized transportation segment and related costs as a percentage of our total consolidated revenue and cost profiles. The increase was partially offset by savings achieved by effectively managing our variable costs with an approximate 9.0% volume increase in Fiscal 2021 as compared to Fiscal 2020. The increase in cost of transportation and services also reflects higher fuel costs for Fiscal 2021 in line with the increase in ground transportation revenue related to fuel for Fiscal 2021.

Direct Operating Expenses

Direct operating expenses for Fiscal 2021 were $84.9 million, or 19.3% of revenue, compared with $75.4 million, or 24.0% of revenue, for Fiscal 2020. The $9.5 million increase is primarily attributable to growth in our healthcare logistics operating segment, and increased investment in our nationwide ATS Healthcare network to support growth in the specialized transportation segment. Our acquisitions (TDS, MCI, Skelton, Skelton USA, and Boyle Transportation). which are included in our specialized transportation segment, have lower facility-related costs compared to our healthcare logistics segment which results in a lower direct operating expense operating ratio in Fiscal 2021 as compared to Fiscal 2020. We have incurred certain incremental costs in connection with our COVID-19 response measures, including additional cleaning activities for our facilities and equipment, expenses for personal protective equipment for our associates, and other measures impacting productivity; however, these incremental costs were mitigated through effective productivity management and other cost controls.

During Fiscal 2021, we continued to qualify for the CEWS program in connection with our packaging operations. We recognize government assistance as a reduction to payroll expense. A total of $1.2 million, or 0.3% of revenue, was recognized as a reduction of direct operating expenses for Fiscal 2021 for assistance received from the CEWS program, compared to $2.4 million, or 0.8% of revenue in Fiscal 2020. Government assistance under the existing CEWS program concluded on October 23, 2021.

Selling, General and Administrative Expenses

SG&A expenses for Fiscal 2021 were $37.1 million, or 8.4% of revenue, compared with $28.6 million, or 9.1% of revenue, for Fiscal 2020. The increase in SG&A expenses is primarily attributable to the acquisitions of TDS, MCI, Skelton, Skelton USA, and Boyle Transportation. We have generated operating leverage by not increasing our SG&A expenses commensurate with our revenue growth. SG&A expenses for Fiscal 2021 include share-based compensation arrangements of approximately $1.9 million, or 0.4% of revenue compared with $3.1 million, or 1.0% of revenue for Fiscal 2020, which contributed to lower SG&A expenses as a percentage of revenue for Fiscal 2021 as compared to Fiscal 2020. These share-based compensation arrangements relate to the initial stock option grants to our directors and senior management team, and deferred share unit grants to our directors, which are intended to provide further alignment with shareholders. A further $2.1 million of cost, or 0.5% of revenue, is included in Fiscal 2021 SG&A expenses for incremental costs associated with the acquisitions of Skelton, Skelton USA, and Boyle Transportation and the Offering.

Depreciation and Amortization

Depreciation and amortization for Fiscal 2021 was $42.7 million, an increase of 52.4%, or $14.7 million, compared with $28.0 million for Fiscal 2020. The acquisitions of Skelton, Skelton USA, and Boyle Transportation accounted for $11.5 million of the increase, with the remaining $3.2 million increase attributable to leases for new right-of-use logistics and transportation equipment to support growth in our specialized transportation segment and our Brampton, Ontario facility.

Other Income/Expense

Other income for Fiscal 2021 was approximately $0.4 million compared with other expense of effectively $nil for Fiscal 2020. This amount is immaterial to our overall performance for Fiscal 2021.

Interest Income

Interest income was $0.2 million for Fiscal 2021 compared with $0.3 million in Fiscal 2020. Interest income is generated on our cash and cash equivalents balances and is earned in connection with our sub-lease of a facility to a third party.

Interest Expense

Interest expense for Fiscal 2021 was $6.2 million compared with $4.6 million for Fiscal 2020. Interest expense related to leased facilities and equipment comprises the significant majority of interest expense; however, $1.4 million of interest expense was incurred in Fiscal 2021 in connection with the Credit Facilities which were entered into at the time of our IPO and increased in connection with the acquisition of Skelton. We expect to continue to hold debt under the Term Facility, which does not have any repayment schedule except as a single repayment at the end of the term and will incur interest expense until maturity on March 1, 2025.

During Fiscal 2021, we repaid $39.0 million of the $50.0 million initially drawn on our Credit Facilities in connection with the acquisition of Skelton.

Income Tax Expense/Recovery

Income tax expense for Fiscal 2021 was $18.5 million. Our effective tax rate is close to the statutory rate of 26.5% for Fiscal 2021 after removing the effect of the gain on step acquisition of equity-accounted investee, non-deductible share-based compensation expenses, and the inclusion of the share of profit of our equity-accounted investee, net of tax.

Income tax expense for Fiscal 2020 was $8.9 million. Previously unrecognized deferred tax assets were recognized in our Fiscal 2020 provision for income taxes. Management determined that AHG, on a standalone basis, will have sufficient future taxable profit available for the Company to use the benefits therefrom. The previously unrecognized deferred tax assets arose from deductible temporary differences from Fiscal 2019 comprising costs incurred by the Company related to the acquisition of certain of our subsidiary entities, which were charged directly to equity, and non-capital tax losses generated in Fiscal 2019.

Operating Income and Net Income

Operating income for Fiscal 2021 was $73.7 million, an increase of $22.8 million, or 44.7%, compared with $50.9 million for Fiscal 2020.

Income before tax for the Specialized Transportation segment was $95.5 million for Fiscal 2021, compared with $40.3 million for Fiscal 2020. The increase was significantly impacted by the gain on step acquisition of $37.9 million in connection with Skelton USA. In addition, approximately $6.3 million of the increase is attributable to our acquisitions of Skelton, Skelton USA, and Boyle Transportation, with the remainder attributable to organic growth.

Income before tax for the Healthcare Logistics segment was $15.0 million for Fiscal 2021 compared with $10.6 million for Q4 2020. The increase reflects the impact of the addition of our Brampton, Ontario facility in the second half of Fiscal 2020, together with greater outbound order handling activities in line with our revenue growth for the year.

Net income for Fiscal 2021 increased by 138.5%, or $52.2 million, to $90.0 million, from $37.7 million for Fiscal 2020. Net income for Fiscal 2021 includes a gain on step acquisition of Skelton USA of $37.9 million, as Skelton USA was acquired in two separate transactions during Fiscal 2021. Segment net income before

eliminations for both our specialized transportation and our healthcare logistics operating segments increased in relation to segment revenue as margins increased in both segments compared with the same periods for the prior year. Fiscal 2021 net income and comprehensive income includes $2.5 million comprising the share of profit of our equity- accounted investee, net of tax, prior to the acquisition of control on November 1, 2021.

Foreign Currency Translation Adjustment

Foreign exchange differences of $2.9 million have been recognized in other comprehensive income for Q4 2021. This reflects assets and liabilities of Skelton USA and Boyle Transportation which have been translated to Canadian dollars at the exchange rate as at December 31, 2021 and revenues and expenses which have been translated to Canadian dollars at exchange rates that approximate those on the date of the underlying transaction.

Total Comprehensive Income

Total comprehensive income for the year was $92.8 million for Fiscal 2021 compared to $37.7 million for Fiscal 2020. Fiscal 2021 is the first year in which total comprehensive income differs from net income due to the acquisition of foreign operations (Skelton USA and Boyle Transportation) resulting in foreign currency translation adjustments as described above.

EBITDA

EBITDA for Fiscal 2021 increased by 99.2% to $157.2 million, from $78.9 million for Fiscal 2020. EBITDA excluding the gain on step acquisition of our equity-accounted investee was $119.3 million which increased over Fiscal 2020 due to the factors discussed above and reflects the incremental contributions of our acquisitions and organic growth in both of our operating segments.

EBITDA Margin

EBITDA Margin for Fiscal 2021 was 35.7%. EBITDA Margin excluding the gain on step acquisition was 27.1% compared with 25.1% for Fiscal 2020. The performance of our two operating segments continues to result in strong and stable EBITDA Margins at the higher end of our historical range. The Skelton business in Canada has a margin profile at the high end of the specialized transportation segment margin range which positively impacts our overall margin. Inter-segment eliminations have increased with the Skelton Companies acquisitions, which have also contributed to our improved EBITDA Margin. The margin profiles of Skelton USA and Boyle Transportation are in line with AHG’s consolidated EBITDA range, but on the lower end of our historical specialized transportation margin range.

Summary of Quarterly Results

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

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

($CAD 000s) except per share data	Q4-21	Q3-21	Q2-21	Q1-21	Q4-20	Q3-20	Q2-20	Q1-20
Total revenue	133,025	104,199	107,125	95,766	86,632	75,805	70,253	81,650
Operating income	21,452	16,796	18,792	16,663	14,281	13,165	11,089	12,404
Net income	53,104	12,188	13,051	11,611	13,869	8,596	7,067	8,182
Total comprehensive income	55,993	12,188	13,051	11,611	13,869	8,596	7,067	8,182
EBITDA	73,691	28,026	29,973	25,487	21,964	20,190	17,959	18,799
Earnings per share – basic	$ 1.29	$ 0.32	$ 0.34	$ 0.31	$ 0.37	$ 0.23	$ 0.19	$ 0.22
Earnings per share - diluted	$ 1.26	$ 0.31	$ 0.33	$ 0.30	$ 0.36	$ 0.22	$ 0.18	$ 0.22

Generally, revenue has trended upwards through the past eight quarters with Fiscal 2021 and Fiscal 2020 reflecting both increased shipping volumes from our clients as well as the impact of price increases which are contractually implemented in both of our operating segments annually or as contracts are renegotiated. Our acquisitions in Fiscal 2021 and Fiscal 2020 have driven step change increases in revenue as well.

Revenue in Q4 2021 includes the consolidation of Skelton USA and Boyle Transportation, resulting in approximately $19.0 million of acquired revenue for the quarter. During Q4 2021 we continued to support the distribution of COVID-19 vaccines and related products, such as test kits and personal protective equipment. Revenue in Q3 2021 was slightly lower than Q2 2021 revenue as activity related to COVID-19 vaccines was higher in Q2 2021.

Revenue for Q4 2020, and Q1 2021 includes incremental revenue related to our acquisitions of TDS and MCI in Q4 2020 and Skelton in Q1 2021.

We believe that Q1 2020 revenue was favourably impacted by accelerated buying behaviour of our clients' customers in connection with the COVID-19 pandemic, which negatively impacted Q2 2020 revenue as our clients' customers reduced inventories to more normal levels. Further, shipping volumes were lower in April and May 2020 as a result of the government-mandated lockdown and other COVID-19 related restrictions, but increased in June 2020 as restrictions were lifted by provincial governments. Shipping volumes throughout Q3 2020 and Q4 2020 returned to more normalized pre-pandemic levels with year-over-year increases averaging in the mid-single digit percentages.

Operating income, net income and comprehensive income, and EBITDA have continued to perform consistently with revenue growth over the past eight quarters and have effectively absorbed the IPO and incremental costs associated with being a public company since December 11, 2019.

Liquidity & Capital Resources

Overview

Our principal uses of funds are for operating expenses, taxes, interest, capital expenditures, lease payments and dividends. We believe that cash generated from our operations, together with amounts available under our Credit Facilities will be sufficient to meet our future operating expenses, taxes, interest, capital expenditures, lease payments and any dividends that may be declared by our board of directors. However, our ability to fund operating expenses, taxes, interest, capital expenditures and future lease payments will depend on, among other things, our future operating performance, which will be affected by general economic, financial and other factors, including factors beyond our control. See "Accounting Classifications and Fair Values", "Summary of Factors Affecting Performance" and "Risk Factors" in this MD&A. We

review potential acquisitions and investment opportunities in the normal course of our business and may make select acquisitions and investments to implement our growth strategy when suitable opportunities arise.

Our tuck-in acquisitions of TDS and MCI in October 2020 for a purchase price of approximately $15.9 million in cash were funded from existing cash flow from operations. We financed the acquisitions of Skelton and the initial 49% of Skelton USA in March 2021 through a combination of cash on hand and by drawing $50.0 million on our Revolving Credit Facility and $25.0 million on our Term Facility, and by issuing $25.0 million of Subordinate Voting Shares to the shareholders of Skelton and Skelton USA. During Fiscal 2021, we repaid $39.0 million of the $50.0 million initially drawn on our Revolving Credit Facility in connection with the Skelton and Skelton USA acquisitions.

On November 1, 2021, we completed the acquisitions of 100% of Boyle Transportation and the remaining 51% of Skelton USA, increasing our aggregate ownership of Skelton USA to 100%. The aggregate purchase price for the acquisition of Boyle Transportation was approximately US$83.0 million ($104.7 million), of which approximately US$63.0 million was paid in cash and US$20.0 million was satisfied by issuing 522,116 Subordinate Voting Shares to the shareholders of Boyle. The aggregate purchase price for the acquisition of the remaining 51% interest in Skelton USA was approximately $44.8 million, of which $19.8 million was paid in cash and $25 million was satisfied by issuing 518,672 Subordinate Voting Shares to the shareholders of Skelton USA. The cash portion of the purchase price for each acquisition was funded through the Offering, pursuant to which AHG issued 2.0 million Subordinate Voting Shares from treasury for gross proceeds of $96.4 million to the Company, with the remaining amounts funded from existing cash flow from operations.

Working Capital

The following table presents our working capital position as at December 31, 2021 and 2020:

($CAD 000s)	**As at December 31,**	
	2021	**2020**
Cash and cash equivalents	24,990	30,148
Trade and other receivables	90,093	57,867
Inventories	2,331	1,228
Prepaid expenses and other	4,656	2,830
Due from related parties	108	381
Revolving credit facility	(11,000)	-
Accounts payable and accrued liabilities	(39,404)	(25,365)
Current portion of lease liabilities	(26,446)	(21,197)
Income taxes payable	(13,679)	(1,514)
Working Capital	**31,649**	**44,378**

As at December 31, 2021, we had working capital of $31.6 million compared with $44.4 million as at December 31, 2020. The $12.8 million decrease in working capital is primarily attributable to the acquisition of Skelton and the initial acquisition of our 49% interest in Skelton USA. The Revolving Credit Facility has additional capacity and does not have repayment terms. We expect to continue to reduce amounts drawn on the Revolving Credit Facility during Fiscal 2022 with excess free cash flow generated from operations, thus we have classified the Revolving Credit Facility in current liabilities. Other working capital amounts reflect the consolidation of our acquisitions.

Credit Facilities

We entered into credit facilities upon closing of our IPO, comprised of a revolving credit facility (the "Revolving Credit Facility") in the aggregate principal amount of up to $75.0 million and a term facility (the "Term Facility", and together with the Revolving Credit Facility, the "Credit Facilities") in the aggregate principal amount of up to $25.0 million. On February 19, 2021, in connection with our acquisitions of Skelton and 49% of Skelton USA, we amended our Credit Facilities to increase the amounts available to be drawn under the Revolving Credit Facility and the Term Facility each by $25.0 million. The amended Credit Facilities comprise a Revolving Credit Facility in the aggregate principal amount of up to $100.0 million and a Term Facility in the aggregate principal amount of up to $50.0 million. The remaining terms and conditions of the Credit Facilities remain unchanged, except that they will mature and be due and payable on March 1, 2025. Fees of $0.7 million have been capitalized in connection with the amendment to our Credit Facilities. As at December 31, 2021, the aggregate amount outstanding before financing costs under the Credit Facilities was $50.0 million under the Term Facility and $11.0 million under the Revolving Credit Facility.

The Revolving Credit Facility is available to be drawn in Canadian dollars by way of prime rate loans, bankers' acceptances and letters of credit, and in U.S. dollars by way of base rate loans, LIBOR based loans and letters of credit, in each case, plus the applicable margin in effect from time to time. The Term Facility was drawn in a single Canadian dollar advance of $25.0 million on closing of the IPO by way of prime rate loans and was subsequently converted to bankers' acceptances and increased by a single Canadian dollar advance of $25.0 million by way of bankers' acceptances in connection with the Skelton acquisitions on March 1, 2021.

The Credit Facilities are subject to customary negative covenants and include financial covenants requiring us to maintain at all times a maximum net leverage ratio and a minimum interest coverage ratio, tested on a quarterly basis. At December 31, 2021, we were in compliance with all of the covenants under the Credit Facilities.

In order to support future potential growth through acquisitions, the Credit Facilities also include an accordion feature to allow us to increase the commitment under one or both of the Credit Facilities in an aggregate principal amount of up to $100.0 million, such that any amounts drawn under the accordion feature would be in addition to the amounts ordinarily available, subject to the agreement of participating lenders and provided that we are not, or would not, be in default under the Credit Facilities, or in non-compliance with any financial covenants and an event of default does not or would not exist, after giving effect thereto and provided that all representations and warranties are true and correct immediately prior to, and after giving effect to, such increase. As of the date of this MD&A, this accordion feature remains uncommitted.

Capital Expenditures

Capital expenditures for Q4 2021 and Fiscal 2021 were $2.9 million and $8.0 million respectively, compared with $0.9 million and $5.0 million for Q4 2020 and Fiscal 2020 respectively. Capital expenditures have historically been funded through cash flows from operations. We have traditionally divided our capital expenditures into two subcategories, capital expenditures (maintenance) and capital expenditures (growth), which are further detailed below.

Skelton and Boyle Transportation have traditionally purchased their fleets, whereas ATS Healthcare and Skelton USA have historically leased their equipment. As our operating segments run autonomously, we expect these entities to continue their past practices in the foreseeable future. Accordingly, management expects that capital expenditures will increase in Fiscal 2022 as Skelton and Boyle Transportation invest to support growth and to maintain their fleets. Otherwise, there are no known trends or expected fluctuations in our capital resources, including expected changes in the mix and relative cost of these resources.

Capital Expenditures (Maintenance)

Maintenance capital expenditures refers to capital expenditures necessary for us to sustain our assets in order to continue operating in our current form. We generally seek to maintain our facilities and equipment at a level consistent with the needs of the sector we operate within and ensure that preventative maintenance programs are in place to achieve the performance expected from our facilities and equipment. Outlays for maintenance capital expenditures for Q4 2021 and Fiscal 2021 were $2.1 million and $4.0 million respectively, compared with $0.4 million and $1.4 million for Q4 2020 and Fiscal 2020 respectively. These capital expenditures were funded through cash flows from operations.

Capital Expenditures (Growth)

Growth capital expenditures comprises expenditures on new assets that are intended to grow our productive capacity. These capital expenditures are made to acquire or expand leasehold improvements, transportation and logistics equipment (including pick-up and delivery equipment, warehouse racking, material handling equipment, warehouse automation equipment and specialized logistics equipment such as coolers or vaults, among others), furniture and fixtures, and computer equipment to support new contracts or additional volume from new business. Outlays for growth capital expenditures for Q4 2021 and Fiscal 2021 were $0.8 million and $4.0 million respectively, compared with $0.5 million and $3.6 million in Q4 2020 and Fiscal 2020 respectively. Growth capital expenditures can range from $1.0 million up to $10.0 million in any given fiscal year, depending on the underlying expansion need. Growth capital expenditures have also historically been funded through cash flows from operations. Growth capital expenditures for Q4 2021 relate primarily to the purchase of tractors and trailers by Skelton. Growth capital expenditures for Fiscal 2021 primarily comprise leasehold improvements, warehouse racking, material handling equipment, and furniture and fixtures related to our 220,000 square-foot facility in Brampton, Ontario. This new facility was in operation effective July 2020 and was fully outfitted by the end of Q2 2021.

In December 2020, we signed an agreement to implement the Tecsys Itopia® platform, a best-in-class healthcare logistics 'software as a service' platform, to replace our prior warehouse management system ("WMS"). Tecsys Inc. is an industry-leading supply chain management software company, and its technology stack will provide us with enhanced warehouse management and transportation management capabilities as well as end-to-end analytics and business intelligence. Our first client is expected to be live on our new WMS in Fiscal 2022. In Q4 2021 and Fiscal 2021, we capitalized $0.6 million and $1.6 million, respectively, to intangible assets in connection with our new WMS.

Cash Flows

The following table presents cash flows for the three months and year ended December 31, 2021 and 2020:

($CAD 000s)	**Three Months Ended December 31,**		**Year Ended December 31,**	
	2021	**2020**	**2021**	**2020**
Cash flows				
Cash from Operating Activities	28,347	5,516	84,089	51,003
Cash from (used in) Financing Activities	75,089	(7,782)	93,889	(19,196)
Cash (used in) from Investing Activities	(93,005)	(16,131)	(183,382)	(20,371)
Effect of foreign currency translation[1]	246	-	246	-
Net change in cash	10,677	(18,397)	(5,158)	11,436
Select cash flow data				
Capital expenditures	(2,898)	(878)	(8,026)	(4,966)
Lease payments	(8,020)	(6,557)	(29,947)	(24,666)

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

Cash Flow Generated From Operating Activities

Cash flow generated from operating activities for Q4 2021 and Fiscal 2021 totaled $28.3 million and $84.1 million respectively, compared with $5.5 million and $51.0 million for Q4 2020 and Fiscal 2020 respectively. The increase in cash flows generated from operating activities relates principally to profitable business growth, including profitable growth from acquisitions, reflected in the 62.9% increase in Fiscal 2021 EBITDA, excluding the gain on step acquisition, and normal fluctuations in trade accounts receivable and trade accounts payable.

Cash Flow Generated From (Used In) Financing Activities

Cash flow generated from financing activities for Q4 2021 and Fiscal 2021 totaled $75.1 million and $93.9 million respectively, compared with cash flow used in financing activities of $7.8 million and $19.2 million for Q4 2020 and Fiscal 2020 respectively. The increase in cash flows generated from financing activities in Q4 2021 relates principally to proceeds from the issuance of share capital in connection with the Offering. In Q1 2021, we made an aggregate draw of $75.0 million on our Credit Facilities in connection with the Skelton and Skelton USA acquisitions, of which $39.0 million has been repaid during Fiscal 2021. In Fiscal 2021 we paid dividends of $7.9 million and made principal repayments on lease liabilities of $25.1 million.

In Fiscal 2020 a loan to the AHG Employee Benefit Plan Trust issued in connection with our IPO was repaid in full resulting in $13.9 million of cash received, offset by lease payments, dividends and a $3.9 million repayment of the Revolving Credit Facility.

Cash Flow (Used In) From Investing Activities

Cash flow used in investing activities for Q4 2021 and Fiscal 2021 totaled $93.0 million and $183.4 million respectively, compared with cash flow used in investing activities of $16.1 million and $20.4 million for Q4 2020 and Fiscal 2020 respectively. The Skelton, Skelton USA and Boyle Transportation acquisitions comprised an aggregate cash outflow of $174.0 million, net of cash acquired, in Fiscal 2021, with the remaining amounts comprising normal course expenditures on property, plant and equipment and intangible assets.

Contractual Obligations

As at December 31, 2021, we had the following contractual commitments:

- Outstanding letters of guarantee in the amount of $0.4 million (December 31, 2020 – $0.2 million);
- Commitments relating to the leasing of fleet equipment, ranging from 72 to 84 months, beginning upon delivery to us of the equipment in Fiscal 2022, for total lease commitments of $8.5 million (December 31, 2020 – $9.2 million); and
- Commitments to purchase fleet equipment expected to be delivered during Fiscal 2022 totaling $7.8 million (December 31, 2020 – $nil).

Credit facilities

As at December 31, 2021, the aggregate amounts outstanding under the Credit Facilities were $50.0 million under the Term Facility (December 31, 2020 – $25.0 million) and $11.0 million under the Revolving Credit Facility (December 31, 2020 – $nil) before capitalized financing costs. The Credit Facilities will mature and be due and payable on March 1, 2025.

Leases

We lease buildings and equipment in the operation of our healthcare logistics and specialized transportation businesses. Building lease terms range from five to 10 years, with many leases including optional extension periods. For Q4 2021, facility lease liabilities are calculated using our incremental borrowing rate of 3.71% (Q4 2020 – 2.99%). Equipment lease terms range from one to five years. For Q4 2021, equipment lease liabilities are calculated using our incremental borrowing rate of 3.13% (Q4 2020 – 3.11%) for our specialized transportation segment and 2.66% (Q4 2020 – 2.70%) for our healthcare logistics segment.

The following table summarizes our contractual obligations as at December 31, 2021 based on undiscounted cash flows:

($CAD 000s)	Total	Less than 1 Year	1-5 Years	More than 5 years
Credit facilities	61,000	-	61,000	-
Lease liabilities	140,893	30,839	86,694	23,360
Equipment purchase and lease commitments	16,332	9,130	7,202	-
Other obligations	106,346	53,083	53,263	-
Total contractual obligations	**324,571**	**93,052**	**208,159**	**23,360**

Off-Balance Sheet Arrangements

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

Seasonality

There is no significant seasonality to our business.

Financial Instruments

Financial assets

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

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

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

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

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

Impairment of financial assets

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

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

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

Financial liabilities

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

Foreign exchange contracts

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

On October 5, 2021, when we announced definitive agreements to acquire Boyle Transportation, we entered into a foreign exchange forward contract to manage foreign exchange rate risk related to the Company's net investment in Boyle Transportation for which the U.S. dollar is the functional currency. The Company recognized a loss from the hedge of $2,010 in other comprehensive income and as an adjustment to goodwill on November 1, 2021 when the business combination occurred.

Related Party Transactions

Intercompany balances and transactions have been eliminated in our consolidated financial statements for the years ended December 31, 2021 and 2020.

During Fiscal 2021 and Fiscal 2020, we entered into transactions with related parties that were incurred in the normal course of business. Our policy is to conduct all transactions and settle all balances with related parties at market terms and conditions. All outstanding balances with these related parties are measured at amortized cost and are to be settled in cash within two months of the reporting date. None of the balances are secured. No expense has been recognized in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

Certain of our operating units provide services to other operating units outside of their reportable segment. Billings for such services are based on negotiated rates, which approximate fair value, and are reflected as revenues of the billing segment. These rates are adjusted from time to time based on market conditions. Such

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

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

Andlauer Management Group Inc.

As of the date hereof, AMG holds all of the Multiple Voting Shares of the Company (the "Multiple Voting Shares" and, together with the Subordinate Voting Shares, the "Shares") and 10,200 Subordinate Voting Shares, representing approximately 56.5% of the issued and outstanding Shares and 83.8% of the voting power attached to all of the Shares. AMG is owned and controlled by Michael Andlauer, our CEO and a director of the Company.

We undertake a limited amount of administrative shared services for AMG. We expect to continue to incur and recover such costs in connection with AMG. For Fiscal 2021, we charged AMG $66 (Fiscal 2020 – $12) for recovery of shared services costs.

Effective October 1, 2020, we acquired all of the issued and outstanding shares of TDS Logistics Ltd. and McAllister Courier Inc. from AMG. Accordingly, transactions with TDS and MCI have been eliminated for Fiscal 2021 but were related party transactions in Fiscal 2020.

Andlauer Properties and Leasing Inc.

Andlauer Properties and Leasing Inc. ("APLI") is a subsidiary of AMG and leases certain facilities and logistics and transportation equipment to us. We also lease facilities and logistics and transportation equipment from arm's length providers. During Fiscal 2021, we expensed $2,261 (Fiscal 2020 - $1,875) for leases of logistics and transportation equipment; and $1,771 (Fiscal 2020 - $1,447) for leases of facilities from APLI. The specific facilities that we lease from APLI are located at: 881 Bell Blvd. W, Belleville, Ontario; 18 Sandbourne Dr., Pontypool, Ontario; 80 – 14th Avenue, Hanover, Ontario; 465 Ofield Road South, Dundas, Ontario; 605 Max Brose Drive, London, Ontario; and 5480 61 Avenue SE, Calgary, Alberta. We expect to continue leasing properties and equipment from APLI. For Fiscal 2021, we charged APLI $19 (Fiscal 2020 - $35) for recovery of shared services costs.

9143-5271 Québec Inc.

9143-5271 Québec Inc. is a subsidiary of AMG and leases a facility located at 655 Desserte E. Hwy 13, Laval, Québec to AHG. We also lease facilities from arm's length providers. During Fiscal 2021, we expensed $1,532 (Fiscal 2020 - $1,468) for this building. We expect to continue leasing this property. For Fiscal 2021, we charged 9143-5271 Québec Inc. $31 (Fiscal 2020 - $32) for recovery of shared services costs.

Ready Staffing Solutions Inc.

Ready Staffing Solutions Inc. ("RSS"), a company owned by Mr. Andlauer's spouse, provides us with temporary agency employee services – providing hourly dock labour for our handling operations, principally in the Greater Toronto Area. We also purchase temporary agency employee services from arm's length providers. During Fiscal 2021, we expensed $4,918 (Fiscal 2020 - $4,166) for purchases of temporary agency employee services from RSS. We expect to continue purchasing temporary agency services from RSS.

1708998 Ontario Limited (Medical Courier Services)

Medical Courier Services ("MCS") is a subsidiary owned 80% by AMG and provides transportation services to us, providing extended reach for shipments where we do not have our own facilities or equipment. During Fiscal 2021, we expensed $188 (Fiscal 2020 - $167) for deliveries subcontracted to MCS. We expect to continue subcontracting deliveries to MCS. Similarly, in Fiscal 2021 we invoiced MCS for $360 (Fiscal 2020 - $27) for transportation services provided to MCS. For Fiscal 2021, we charged MCS $14 (Fiscal 2020 - $12) for recovery of shared services costs.

McAllister Courier Inc.

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

TDS Logistics Ltd.

TDS was a subsidiary owned 100% by AMG until October 1, 2020, at which time TDS became a wholly-owned subsidiary of the Company. Prior to this time, TDS subcontracted deliveries to us, to take advantage of efficiencies gained through coincidence of delivery. During Fiscal 2020, we charged $534 for deliveries subcontracted to us by TDS. During Fiscal 2020, we also charged TDS $189 for shared services and recovered $273 in equipment rental charges.

In Fiscal 2020, TDS also provided transportation services to us, offering us additional capacity where we could subcontract deliveries to take advantage of coincidences of delivery. During Fiscal 2020, TDS charged us $469 for deliveries subcontracted to it by AHG.

During Fiscal 2020 we provided TDS with leased facility space, which is a cost recovery for which we recovered $492 of facility lease costs from TDS.

AWA Transportation & Logistics Inc.

AWA Transportation & Logistics Inc. ("AWA") is a subsidiary owned 100% by AMG. AWA provided transportation services to AHG, providing extended reach for shipments where we did not have our own facilities or equipment. We purchased $813 in services for Fiscal 2020. In Q1 2021, we discontinued purchasing transportation services from AWA.

Med Express Ltd.

Med Express Ltd. ("MEL") is a subsidiary owned 100% by AMG. MEL provides transportation services to AHG, providing extended reach for shipments where we do not have our own facilities or equipment. We purchased $12 in services during Fiscal 2021 (Fiscal 2020 - $25). We expect to continue to subcontract deliveries to MEL from time to time.

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

D.C. Racking & Maintenance Inc. ("DCR") and Logiserv Inc. ("Logiserv") are owned by Cameron Joyce, an AHG director. DCR provides warehouse racking installation, maintenance and repairs for our healthcare logistics segment. Logiserv provides us with warehouse racking and racking components as well as warehouse racking installation, maintenance and repairs. We also purchase warehouse racking installation, maintenance and repairs, and warehouse racking and racking components from arm's length providers. During Fiscal 2021, we expensed $29 (Fiscal 2020 - $64) for warehouse racking installation, maintenance

and repair services provided by DCR and Logiserv; and capitalized $20 (Fiscal 2020 - $nil). We expect to continue to purchase warehouse racking installation, maintenance and repair services from DCR and Logiserv.

C-GHBS Inc.

C-GHBS Inc. ("C-GHBS") is a subsidiary of AMG and provides air travel services to us. We also purchase air travel services from arm's length providers. During Fiscal 2021, we purchased $67 (Fiscal 2020 - $174) from C-GHBS. We expect to continue to purchase air travel services from C-GHBS.

Skelton Truck Lines Inc.

Skelton Truck Lines Inc. ("SKINC") is a wholly-owned subsidiary of Skelton USA. SKINC provides specialized 2-8°C transportation services to Skelton USA in the United States, and Skelton provides specialized 2-8°C transportation services to SKINC in Canada. For the period from March 1, 2021 to October 31, 2021, AHG purchased $319 of transportation services from SKINC and invoiced $1,180 to SKINC. Effective November 1, 2021, we acquired the remaining 51% interest in Skelton USA, at which time SKINC became a wholly-owned subsidiary of the Company.

Key Management Personnel

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

During Fiscal 2021, we recorded $5,169 (Fiscal 2020 – $5,296) related to key management personnel salaries and benefits, share-based compensation, and director fees.

Due from/to related parties

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

($CAD 000s)	**As at December 31,**	
	2021	**2020**
Accounts receivable		
AWA Transportation Services	-	1
Andlauer Properties and Leasing Inc.	74	20
Med Express Ltd.	2	-
1708998 Ontario Limited (Medical Courier Services)	32	3
Trade receivables due from related parties	108	24
Due from related parties		
Andlauer Management Group Inc.	16	10
Andlauer Properties and Leasing Inc.	-	371
Former T.F. Boyle Transportation, Inc. shareholders	92	-
Due from related parties	108	381
Total due from related parties	**216**	**405**

($CAD 000s)	As at December 31,	
	2021	2020
Accounts payable and accrued liabilities		
Ready Staffing Solutions Inc.	343	23
Andlauer Properties and Leasing Inc.	302	18
Andlauer Management Group Inc.	-	24
Logiserv Inc.	7	21
Trade payables due to related parties	652	86
Due to related parties		
Andlauer Properties and Leasing Inc.	254	-
Former Skelton Canada Inc. shareholders	1,032	-
Due to related parties	1,286	-
Total due to related parties	**1,938**	**86**

Critical Accounting Judgements and Estimates

The preparation of our consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities, the disclosures about contingent assets and liabilities, and the reported amounts of revenues and expenses and apply equally to both our healthcare logistics segment and our specialized transportation segment. Such estimates include the expected credit losses on accounts receivable, the useful life of long-lived assets, our incremental borrowing rate, valuation of property, plant and equipment, valuation of goodwill and intangible assets, the measurement of identified assets and liabilities acquired in business combinations, share-based compensation arrangements, the provision for income taxes and other provisions and contingencies.These estimates and assumptions are based on management's best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. Actual results could differ from these estimates. Changes in those estimates and assumptions resulting from changes in the economic environment will be reflected in the consolidated financial statements of future periods. Information about critical judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year have been described in our consolidated financial statements for the years ended December 31, 2021 and 2020. Key estimates and assumptions remain consistent with those disclosed in our consolidated financial statements.

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

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

Significant New Accounting Standards

Adopted During the Period

There were no new standards that became effective for periods beginning on or after January 1, 2021 that have a material impact on our consolidated financial statements for Fiscal 2021. The following describes accounting standards which first impacted the Company during Fiscal 2021.

On March 1, 2021, the Company acquired a 49% interest in Skelton USA. Following the acquisition, management determined that it did not control Skelton USA; accordingly, we accounted for our investment in Skelton USA using the equity method of accounting. Under the equity method of accounting, an equity investment is initially recorded at cost and is subsequently adjusted to reflect the investor's share of the net profit or loss of the associate. Our 49% share of total comprehensive income of Skelton USA for the period from March 1, 2021 to October 31, 2021 was $2.5 million. The net book value of our 49% interest in Skelton USA at November 1, 2021 was $10.1 million. Subsequent to November 1, 2021, Skelton USA has been consolidated with AHG from the acquisition date forward in accordance with IFRS 10.

Since we achieved our acquisition of Skelton USA in two steps, we re-measured our previously held equity interest in Skelton USA at its estimated fair value on November 1, 2021 resulting in a gain of $37.9 million being recognized from the step acquisition.

Skelton USA, through its wholly-owned subsidiary, SKINC, and Boyle Transportation are foreign operations operating in the United States. In preparing the Company's consolidated financial statements, the financial statements of each entity are translated into Canadian dollars. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on business combinations, are translated to Canadian dollars at exchange rates as at the balance sheet date. Revenues and expenses of foreign operations are translated to Canadian dollars at exchange rates that approximate those on the date of the underlying transaction. Foreign exchange differences are recognized in other comprehensive income and accumulated in equity in the foreign currency translation reserve. In Fiscal 2021, the Company recognized a net foreign currency translation adjustment gain of $4.9 million, which is included in other comprehensive income.

On October 5, 2021, when we announced a definitive agreement to acquire Boyle Transportation, we entered into a foreign exchange forward contract to manage foreign exchange rate risk related to the Company's net investment in Boyle Transportation for which the U.S. dollar is the functional currency. The Company recognized a loss from the hedge of $2.0 million in other comprehensive income and as an adjustment to goodwill on November 1, 2021 when the business combination occurred.

To be Adopted in Future Periods

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

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

On January 23, 2020, the IASB issued amendments to IAS 1 – Presentation of Financial Statements, to clarify the classification of liabilities as current or non-current. The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted. For the purposes of non-current

classification, the amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period. The extent of the impact of adoption of the amendments has not yet been determined.

Accounting Classifications and Fair Values

Our financial instruments consist of cash and cash equivalents, accounts receivable, deposits, and accounts payable and accrued liabilities. We believe that the carrying amount of each of these items is a reasonable approximation of fair value.

Risk Factors

For a detailed description of risk factors associated with the Company, refer to the "Risk Factors" section of our AIF, which is available on the Company's profile on SEDAR at www.sedar.com.

Coronavirus ("COVID-19")

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian Federal and Provincial governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel restrictions, self-imposed quarantine periods, temporary closures or restrictions of non-essential businesses, limitations on public gatherings, and social distancing guidelines, have caused material disruption to businesses globally and in Canada resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions, however the success of these interventions is not currently determinable. Further, depending on the duration of the pandemic, or if the pandemic were to worsen, existing emergency measures may be extended, or additional restrictive measures may be implemented, causing further economic impact and uncertainty.

We are actively assessing and responding, where possible, to the effects of the COVID-19 pandemic on employees, customers, suppliers and other stakeholders. We have successfully adopted a work-from-home policy for our administrative personnel, and at our facilities that continue to operate, in accordance with applicable laws, we are taking steps to safeguard employees through enhanced cleaning practices, employee monitoring strategies, physical distancing and the availability of personal protective equipment in certain circumstances. We are also taking measures to manage costs where possible.

Certain of our administrative personnel have been working remotely, which could disrupt our management, business development, customer service, finance, and information technology teams. We may experience an increase in absences related to the pandemic among our operational personnel, including warehouse associates, drivers and owner operators, which could have a negative impact on our operations. Further, our network or facility operations, particularly in areas with a concentrated outbreak of COVID-19, could be disrupted resulting in an adverse impact on our operating results.

While our business has not been materially and adversely affected by the COVID-19 pandemic to date, the extent to which COVID-19 (including variant strains and mutations) and its effect on the economy will impact our business in the future remains highly uncertain and may lead to adverse changes in our cash flows, working capital levels, debt balances, operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and our business is not known at this time. Our pandemic management response team will continue to meet regularly as needed to review

procedures, service levels, news, and Health Canada updates to address any challenges as they arise. At this time, we do not believe there is any immediate risk of significant disruption to our services. In the event of a future significant disruption to our service, we will work closely with our clients, suppliers and regulatory authorities to prioritize the supply and delivery of essential medications and supplies. We continue to closely monitor this situation and we will provide appropriate updates in a timely manner.

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

Credit Risk

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

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

Liquidity Risk

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

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

We have entered into Credit Facilities with affiliates of RBC, CIBC, and Bank of Nova Scotia, comprised of a Revolving Credit Facility in the aggregate principal amount of up to $100.0 million and a Term Facility in the aggregate principal amount of up to $50.0 million. The Credit Facilities are available to be drawn in Canadian dollars by way of prime rate loans, bankers' acceptances and letters of credit, and in U.S. dollars by way of base rate loans, 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 $100.0 million, such that any amounts drawn under the accordion feature would be in addition to the amounts ordinarily available, subject to the agreement of participating lenders and provided that we are not, or would not, be in default under the Credit Facilities or in non-compliance with any financial covenants and an event of default does not or would not exist, after giving effect thereto and provided that all representations and warranties are true and correct immediately prior to, and after giving effect to, such increase. As at December 31, 2021, the aggregate amounts outstanding under the Credit Facilities were $50.0 million under the Term Facility and $11.0 million under the Revolving Credit Facility before capitalized financing costs. As of the date of this MD&A, this accordion feature remains uncommitted.

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

Interest Rate Risk

We have a Revolving Credit Facility and Term Facility that each bear interest at a floating rate subject to fluctuations in interest rates. Changes in interest rates can cause fluctuations in interest payments and cash flows. We do not use derivative financial instruments to mitigate the effect of this risk. The Credit Facilities are available to be drawn in Canadian dollars by way of prime rate loans, bankers' acceptances and letters of credit, and in U.S. dollars by way of base rate loans, LIBOR based loans and letters of credit, in each case, plus the applicable margin in effect from time to time. At December 31, 2021, the Credit Facilities comprise bankers' acceptances drawn at an interest rate of 1.9%. During Fiscal 2021 there has been no exposure to significant interest rate fluctuations.

Currency Risk

We enter into foreign currency purchase and sale transactions and have assets and liabilities that are denominated in foreign currencies and thus are exposed to the financial risk of earnings fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. We use derivative instruments to reduce our exposure to foreign currency risk only where appropriate, such as in connection with the Boyle Transportation acquisition.

Outstanding Share Data

Our authorized share capital consists of an unlimited number of Subordinate Voting Shares, an unlimited number of Multiple Voting Shares and an unlimited number of preferred shares, issuable in series. As at March 2, 2022, there were 18,223,429 Subordinate Voting Shares issued and outstanding, 23,600,000 Multiple Voting Shares issued and outstanding (each of which is convertible into Subordinate Voting Shares on a one-for-one basis), and no preferred shares issued and outstanding. In addition, as at such date we had 1,202,250 options, each of which can be exercised or settled for one Subordinate Voting Share and 37,407 Deferred Share Units issued and outstanding under our omnibus incentive plan. As of the date hereof, AMG holds all of the Multiple Voting Shares and 10,200 of the Subordinate Voting Shares, representing approximately 56.5% of the issued and outstanding Shares and 83.8% of the voting power attached to all of the Shares.

Subject to financial results, capital requirements, available cash flow, corporate law requirements and any other factors that our board of directors may consider relevant, we expect to declare a quarterly dividend on the Subordinate Voting Shares and Multiple Voting Shares equal to approximately $0.06 per share on an ongoing basis. Our Q4 2021 dividend, in the amount of $0.05 per Share, was paid on January 17, 2022 for the period beginning on October 1, 2021 and ending on December 31, 2021, to shareholders of record as at December 31, 2021. Dividends are declared and paid in arrears. The amount and timing of the payment of any dividends are not guaranteed and are subject to the discretion of our board of directors.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

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

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

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

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

Disclosure Controls and Procedures

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

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

Internal Controls Over Financial Reporting

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

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

Changes in Internal Controls Over Financial Reporting

No changes were made to our ICFR during Fiscal 2021 that have materially affected, or are reasonably likely to materially affect, our ICFR.

Limitation on Scope of Design

The scope of design of DC&P and ICFR excludes controls, policies and procedures related to Skelton USA and Boyle Transportation, businesses which we acquired on November 1, 2021. Skelton USA recorded approximately $19.0 million of revenue and approximately $1.7 million of net income for Fiscal 2021. Summary financial information about Skelton USA and Boyle Transportation has been consolidated in our consolidated financial statements.

We anticipate that the design of DC&P and ICFR related to Skelton USA and Boyle Transportation will be completed prior to September 30, 2022, at which time Skelton USA and Boyle Transportation will be integrated with our existing specialized transportation segment's control environment.

Additional Information

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

Consolidated Financial Statements of

ANDLAUER HEALTHCARE GROUP INC.

For the years ended December 31, 2021 and 2020

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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, 2021 and December 31, 2020
- the consolidated statements of income and comprehensive income for the years ended December 31, 2021 and December 31, 2020
- the consolidated statements of changes in equity for the years ended December 31, 2021 and December 31, 2020
- the consolidated statements of cash flow for the years ended December 31, 2021 and December 31, 2020
- 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, 2021 and December 31, 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Assessment of the fair value of acquired customer relationships and brands

Description of the matter

We draw attention to Note 5 to the consolidated financial statements. The Entity acquired Skelton Canada Inc. ("Skelton"), Skelton USA Inc. ("Skelton USA") and T.F. Boyle Transportation, Inc. ("Boyle"). The Entity accounts for acquired businesses using the acquisition method of accounting by recording assets acquired and liabilities assumed at their respective fair values. As a result of the transactions, the Entity acquired intangible assets consisting of customer relationships of $115,218 thousand and brands of $37,297 thousand respectively. The determination of the acquisition-date fair value of the customer relationships required the Entity to make significant estimates and assumptions regarding (1) future revenue growth from existing customers, (2) future cost of sales and operating expenses, (3) forecasted attrition rate, (4) contributory asset charges, and (5) discount rate. The determination of the acquisition-date fair value of brands required the Entity to make significant estimates and assumptions regarding (1) future revenue growth applicable to brands, (2) royalty rate, (3) long-term growth rate used to determine terminal value, and (4) discount rate.

Why the matter is a key audit matter

We identified the assessment of the fair value of acquired customer relationships and brands as a key audit matter. This matter represented an area of significant risk of material misstatement due to the magnitude of the balances and the high degree of estimation uncertainty in determining the fair value of acquired customer relationships and brands. Significant auditor judgment and the involvement of those with specialized skills and knowledge were required in performing and evaluating the results of our procedures. This was due to the sensitivity of the fair value of the customer relationships and brands to minor changes in certain significant estimates.

How the matter was addressed in the audit

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

We evaluated the appropriateness of future revenue growth, future cost of sales and operating expenses by comparing to actual historical revenue growth, cost of sales and operating expenses generated by Skelton, Skelton USA and Boyle. We considered changes in conditions and events to assess the adjustments or lack of adjustments made in arriving at future revenue growth, future cost of sales and operating expenses.

We involved valuation professionals with specialized skills and knowledge who assisted in:

- evaluating the appropriateness of the forecasted attrition rate by comparing to actual historical customer attrition rates,

- evaluating the appropriateness of the contributory asset charges by comparing to independently developed contributory asset charges using a weighted-average-returns-analysis,
- evaluating the appropriateness of the discount rate by comparing against a discount rate range that was independently developed using publicly available market data for comparable entities based on its relative risk profile, leveragability, and liquidity,
- assessing the appropriateness of the royalty rates by comparing to external industry data, and
- evaluating the appropriateness of the long-term growth rate used to determine the terminal value that was independently developed using industry specific long-term growth rates.

Other Information

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

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

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

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Hamilton, Canada
March 2, 2022

Andlauer Healthcare Group Inc.
Consolidated Balance Sheets
As at December 31, 2021 and December 31, 2020
(In thousands of Canadian dollars, except shares, share price and earnings per share)

Assets	**Note**	**December 31, 2021**	**December 31, 2020**
Current assets			
Cash and cash equivalents		$ 24,990	$ 30,148
Trade and other receivables	6	90,093	57,867
Inventories	7	2,331	1,228
Prepaid expenses and other		4,656	2,830
Due from related parties	21	108	381
		122,178	92,454
Non-current assets			
Long-term deposits and other		847	810
Property, plant and equipment	8	178,112	118,915
Goodwill and intangible assets	9	335,200	34,479
Deferred income taxes	17	7,832	6,139
Total Assets		**$ 644,169**	**$ 252,797**
Liabilities and Equity			
Current liabilities			
Revolving credit facility	11	$ 11,000	$ -
Accounts payable and accrued liabilities	10	39,404	25,365
Current portion of lease liabilities	18	26,446	21,197
Income taxes payable		13,679	1,514
		90,529	48,076
Long-term liabilities			
Lease liabilities	18	100,517	83,749
Deferred income taxes	17	50,430	1,978
Due to related parties	21	1,286	-
Term facility	11	49,288	24,667
Total Liabilities		**292,050**	**158,470**
Equity			
Common share capital	13	719,936	549,662
Contributed surplus	15	4,967	4,448
Accumulated other comprehensive income		4,899	-
Merger reserve	2	(488,916)	(488,916)
Retained earnings		111,233	29,133
		352,119	94,327
Commitments and contingencies	20		
Subsequent event	24		
Total Liabilities and Equity		**$ 644,169**	**$ 252,797**

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"Peter Jelley"
Director

"Thomas G. Wellner"
Director

Andlauer Healthcare Group Inc.

Consolidated Statements of Income and Comprehensive Income

For the years ended December 31, 2021 and 2020

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

	Note	December 31, 2021	December 31, 2020
Revenue	16	**$ 440,115**	**$ 314,340**
Operating Expenses			
Cost of transportation and services		201,784	131,392
Direct operating expenses		84,861	75,374
Selling, general and administrative expenses		37,051	28,613
Depreciation and amortization		42,716	28,022
		366,412	263,401
Operating Income		**73,703**	**50,939**
Gain on step acquisition of equity-accounted investee	5	37,921	-
Share of profit of equity-accounted investee, net of tax	5	2,469	-
Interest expense	19	(6,219)	(4,595)
Interest income		198	285
Other income (expenses)		368	(49)
Income before income taxes		**108,440**	**46,580**
Current income tax expense	17	21,381	15,137
Deferred income tax recovery	17	(2,895)	(6,271)
		18,486	8,866
Net income		**$ 89,954**	**$ 37,714**
Net earnings per share			
Basic earnings per share	14	**$ 2.30**	**$ 1.00**
Diluted earnings per share	14	**$ 2.25**	**$ 0.98**
Other comprehensive income			
Net income		$ 89,954	$ 37,714
Foreign currency translation adjustment		4,899	-
Loss on hedge related to business combination	5	(2,010)	-
Other comprehensive income for the year		2,889	-
Total comprehensive income for the year		**$ 92,843**	**$ 37,714**

See accompanying notes to the consolidated financial statements.

Andlauer Healthcare Group Inc.
Consolidated Statements of Changes in Equity
For the years ended December 31, 2021 and 2020
(In thousands of Canadian dollars, except shares, share price and earnings per share)

	Number of shares (thousands) (note 13)	Share capital (note 13)	Accumulated other compre-hensive income	Merger reserve (note 2)	Contributed surplus (note 15)	Retained earnings	Total equity
Balance at December 31, 2020	37,603	$ 549,662	$ -	$ (488,916)	$ 4,448	$ 29,133	$ 94,327
Net income and comprehensive income for the year	-	-	2,889	-	-	89,954	92,843
Shares issued in connection with business combinations (note 5)	1,799	75,166	-	-	-	-	75,166
Net shares issued in connection with the new issue and secondary offering (note 13)	2,000	96,400	-	-	-	-	96,400
Transaction costs, net of tax (notes 5, 13, 17)	-	(3,285)	-	-	-	-	(3,285)
Share-based compensation (note 15)	267	1,993	-	-	519	-	2,512
Dividends (note 13)	-	-	-	-	-	(7,854)	(7,854)
Transfer of loss on hedge related to business combination (note 5)	-	-	2,010	-	-	-	2,010
Balance at December 31, 2021	**41,669**	**$ 719,936**	**$ 4,899**	**$ (488,916)**	**$ 4,967**	**$ 111,233**	**$ 352,119**
Balance at December 31, 2019	37,600	$ 549,679	$ -	$ (488,916)	$ 1,394	$ (652)	$ 61,505
Net income and comprehensive income for the year	-	-	-	-	-	37,714	37,714
Share-based compensation (note 15)	3	(17)	-	-	3,054	-	3,037
Dividends (note 13)	-	-	-	-	-	(7,929)	(7,929)
Balance at December 31, 2020	**37,603**	**$ 549,662**	**$ -**	**$ (488,916)**	**$ 4,448**	**$ 29,133**	**$ 94,327**

See accompanying notes to the consolidated financial statements.

Andlauer Healthcare Group Inc.

Consolidated Statements of Cash Flow

For the years ended December 31, 2021 and 2020

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

	Note	December 31, 2021	December 31, 2020
Operating activities			
Net income for the year		$ 89,954	$ 37,714
Changes not involving cash:			
Gain on step-acquisition of equity-accounted investee	5	(37,921)	-
Depreciation and amortization		42,716	28,022
Amortization of capitalized financing costs	11	242	112
Share-based compensation	15	1,861	3,037
Share of profit of equity-accounted investee, net of tax	5	(2,469)	-
Deferred income tax recovery	17	(3,795)	(6,271)
(Gain) loss on disposal of property, plant and equipment		(103)	18
Net gain on derecognition of right-of-use assets	18	(142)	(34)
		90,343	62,598
Changes in non-cash operating working capital:			
Trade and other receivables		(14,184)	(3,040)
Inventories		(472)	(157)
Accounts payable and accrued liabilities		4,449	(948)
Income taxes payable		4,076	(7,181)
Net change in other operating working capital balances		(121)	(269)
Cash flows from operating activities		**84,091**	**51,003**
Financing activities			
Dividends	13	(7,854)	(7,929)
Principal repayments on lease liabilities	18	(25,109)	(20,736)
Net change in related party balances		(2,293)	(477)
Loan to employee trust		-	13,875
Proceeds from revolving credit facility	11	50,000	-
Proceeds from term facility	11	25,000	-
Repayment of revolving credit facility	11	(39,000)	(3,929)
Net financing costs on credit facilities	11	(621)	-
Proceeds from issuance of share capital	13, 15	97,051	-
Transaction costs recorded in share capital	13	(3,285)	-
Cash flows from (used in) financing activities		**93,889**	**(19,196)**
Investing activities			
Purchase of property, plant and equipment		(8,026)	(4,966)
Proceeds on disposal of property, plant and equipment		258	1
Purchase of intangible assets	9	(1,642)	(473)
Acquisition of equity accounted investee	5	(7,648)	-
Business combinations, net of cash acquired	5	(166,324)	(14,933)
Cash flows used in investing activities		**(183,382)**	**(20,371)**
Net (decrease) increase in cash and cash equivalents		(5,402)	11,436
Effect of foreign currency translation on cash and cash equivalents		244	-
Cash and cash equivalents, beginning of year		30,148	18,712
Cash and cash equivalents, end of year		**$ 24,990**	**$ 30,148**

See accompanying notes to the consolidated financial statements.

1. Reporting entity

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

In addition to the shares issued to the public, Andlauer Management Group Inc. ("AMG") holds 23.6 million multiple voting shares and 10,200 subordinate voting shares of AHG, representing approximately 56.7% of the issued and outstanding shares and 83.9% of the voting power attached to all of the shares. AMG is owned and controlled by Michael Andlauer, Chief Executive Officer and a director of AHG.

2. Basis of presentation

a) Statement of compliance

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

b) Basis of measurement

These consolidated financial statements were prepared on a going concern basis under the historical cost method except for share based compensation and business combinations, which were recorded at fair value. Significant accounting policies are presented in note 3 to these consolidated financial statements and have been consistently applied in each of the periods presented. These consolidated financial statements were authorized for issue by the Board of Directors effective March 2, 2022.

Common control transaction

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

2. Basis of presentation (continued)

c) Basis of consolidation

(i) Business combinations

The Company accounts for acquired businesses using the acquisition method of accounting by recording assets acquired and liabilities assumed at their respective fair values. 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.

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.	Canada
Accuristix	Ontario
Associated Logistics Solutions Inc.	Ontario
ATS Andlauer Transportation Services GP Inc.	Canada
ATS Andlauer Transportation Services LP	Manitoba
Boyle Acquireco, Inc.[4]	Delaware
Boyle Holdco, Inc.[4]	Delaware
Concord Supply Chain Solutions Inc.[1]	Delaware
Credo Systems Canada Inc.	Ontario
McAllister Courier Inc.[2]	Ontario
MEDDS Canada – A Medical Delivery Service Corporation[1]	Canada
MEDDS Winnipeg – A Medical Delivery Service Corporation	Manitoba
Nova Pack Ltd.	Ontario
Skelton Canada Inc.[3]	Ontario
Skelton Truck Lines, Inc.[4]	Delaware
Skelton U.S.A. Inc.[4]	Ontario
T.F. Boyle Transportation, Inc.[4]	Massachusetts
TDS Logistics Ltd.[2]	Ontario

[1] Entity has been dormant throughout the entire reporting period.
[2] Acquired on October 1, 2020. Refer to note 5.
[3] Acquired on March 1, 2021. Refer to note 5.
[4] Acquired on November 1, 2021. Refer to note 5.

2. Basis of presentation (continued)

c) Basis of consolidation (continued)

(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. The functional currency of Canadian operations is the Canadian dollar and the functional currency of U.S. operations is the U.S. dollar.

e) Judgments and estimates

Preparing the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these consolidated financial statements, significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2020. Information about significant judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

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

3. Significant accounting policies

Foreign currency translation

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

3. Significant accounting policies (continued)

Foreign currency translation (continued)

In preparing the Company's consolidated financial statements, the financial statements of each foreign entity are translated into Canadian dollars. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on business combinations, are translated to Canadian dollars at exchange rates as at the balance sheet date. Revenues and expenses of foreign operations are translated to Canadian dollars at exchange rates that approximate those on the date of the underlying transaction. Foreign exchange differences are recognized in other comprehensive income and accumulated in equity in accumulated other comprehensive income .

If the Company or any of its subsidiaries disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the accumulated foreign currency translation gains or losses related to the foreign operation are recognized in net income.

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 of products. These services are typically priced at their stand-alone selling prices and are recognized over time as the customer simultaneously receives and consumes the benefits of the Company's services. Contracts with customers that contain multiple performance obligations require the Company to allocate the contractual transaction price to the identified distinct performance obligations. The allocation of the transaction price requires management to determine the standalone selling price for each distinct performance obligation. These services are recognized as revenue when they are provided to the customer.

3. Significant accounting policies (continued)

Revenue (continued)

b) Healthcare Logistics (continued)

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 Method	Amortization
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 storage	Primarily 20-30% declining balance, except for vaults – which are amortized straight line over 40 years and certain transportation equipment – which is amortized straight line over periods of 3-7 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.

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, brands, and internally generated software.

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

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.

Amortization

Goodwill is not amortized.

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

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.

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.

3. Significant accounting policies (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.

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.

3. Significant accounting policies (continued)

Leases (continued)

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

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'.

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

Trade and other receivables 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, trade and other receivables, 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.

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.

Derivative contracts and hedge accounting

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

When the Company enters into a foreign exchange forward contract to manage foreign exchange rate risk in connection with a business combination , the hedge is considered a hedge of a non-financial item and is therefore recognized in other comprehensive income with a corresponding adjustment to goodwill when the business combination occurs.

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.

3. Significant accounting policies (continued)

Share-based compensation

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

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

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

Government assistance

The Company recognizes government assistance when there is reasonable assurance that it will comply with the conditions required to qualify for the assistance, and that the assistance will be received. The Company recognizes government assistance as a reduction to the related expense that the assistance is intended to offset.

4. Segment reporting

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

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

The following table identifies selected financial data as at December 31, 2021 and 2020 and for the years then ended:

	Specialized Transportation	Healthcare Logistics	Corporate	Eliminations	Total
As at December 31, 2021 and for the year then ended					
Revenue	$ 343,344	$ 135,327	$ 3,780	$ (42,336)	$ 440,115
Segment income before tax	95,465	14,994	(2,019)	-	108,440
Interest income	(3,233)	122	3,309	-	198
Interest expense	(3,581)	(2,164)	(474)	-	(6,219)
Depreciation and amortization	(30,700)	(12,016)	-	-	(42,716)
Segment net income	80,889	11,031	(1,966)	-	89,954
Segment total assets	524,127	131,754	737,350	(749,062)	644,169
Additions of ROU assets	22,547	11,028	-	-	33,575
Additions of property, plant and equipment through business combinations[1]	54,010	-	-	-	54,010
Capital expenditures	5,410	2,616	-	-	8,026
Segment total liabilities	280,854	68,867	31,382	(89,053)	292,050
As at December 31, 2020 and for the year then ended					
Revenue	$ 229,447	$ 116,356	$ 2,400	$ (33,863)	$ 314,340
Segment income before tax	40,275	10,574	(4,269)	-	46,580
Interest income	(612)	66	831	-	285
Interest expense	(2,059)	(1,871)	(665)	-	(4,595)
Depreciation and amortization	(16,845)	(11,177)	-	-	(28,022)
Segment net income	29,716	7,700	298	-	37,714
Segment total assets	129,614	113,358	572,141	(562,316)	252,797
Additions of ROU assets	15,911	20,861	-	-	36,772
Additions of property, plant and equipment through business combinations[1]	1,396	-	-	-	1,396
Capital expenditures	843	4,123	-	-	4,966
Segment total liabilities	119,512	61,502	28,076	(50,620)	158,470

[1] Includes $17,798 of ROU assets acquired through business combinations

4. Segment reporting (continued)

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

The Company does not have any customers that individually represent more than 10% of revenue for the years ending December 31, 2021 and 2020.

5. Business combinations

On March 1, 2021, the Company acquired all of the issued and outstanding shares of Skelton Canada Inc. ("Skelton"), a leading transportation partner to the Canadian pharmaceutical and biologics industry for $107,306, the estimated fair value of the business acquired. The acquisition was financed through a combination of cash on hand, drawing $75,000 on its credit facilities and by issuing 757,576 subordinate voting shares comprising $25,000 to the shareholders of Skelton. As part of the same transaction, the Company acquired a 49% interest in Skelton USA Inc. ("Skelton USA"), whose wholly-owned subsidiary, Skelton Truck Lines, Inc., operates domestically in the United States, for cash consideration of $7,648. Management determined that it did not control Skelton USA until AHG acquired the remaining 51% of Skelton USA on November 1, 2021. Accordingly, between March 1, 2021 and November 1, 2021, the Company accounted for its investment in Skelton USA using the equity method of accounting.

Under the equity method of accounting, an equity investment is initially recorded at cost and is subsequently adjusted to reflect the investor's share of the net profit or loss of the associate. The Company's 49% share of total comprehensive income of Skelton USA for the period from March 1, 2021 to October 31, 2021 was $2,469. The net book value of the Company's 49% interest in Skelton USA at November 1, 2021 was $10,117.

On November 1, 2021 the Company acquired 100% of T.F. Boyle Transportation, Inc. ("Boyle") and 51% of Skelton USA, increasing AHG's aggregate ownership of Skelton USA to 100%. Boyle provides specialized transportation services to clients in the life sciences and government and defense sectors and Skelton USA specializes in the transportation of refrigerated healthcare products. The estimated fair value of Boyle was $104,715 (US $83,041). The estimated fair value for the remaining 51% of Skelton USA was $50,000 before purchase consideration was reduced by $5,237 for certain tax liabilities attributed to the selling shareholders absorbed by the Company. The Company used the net proceeds of the sale of subordinate voting shares by it under a new issue public offering (refer to note 13 and the Company's short form prospectus dated October 19, 2021), together with cash on hand, to pay the aggregate cash purchase price of $99,312. The remaining purchase price of $50,166 was settled by the issuance of 1,040,788 subordinate voting shares from treasury.

For the period from acquisition on March 1, 2021 to December 31, 2021, Skelton contributed revenue of $33,562 and net income before amortization of intangible assets acquired of $5,596 ($2,336 net of intangible amortization) to the Company's financial results. For the period from acquisition on November 1, 2021 to December 31, 2021, Skelton USA and Boyle together contributed revenue of $19,001 and net income before amortization of intangible assets acquired of $3,283 ($1,726 net of intangible amortization). If the Company had acquired Skelton, Skelton USA, and Boyle on January 1, 2021, management estimates that consolidated revenue would have been approximately $525,300 and consolidated net income before amortization of intangible assets acquired would have been approximately $109,000 ($93,400 net of intangible amortization). In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisitions would have been the same had the acquisition occurred on January 1, 2021.

5. Business combination (continued)

AHG achieved its acquisition of Skelton USA in two steps (49% on March 1, 2021 and the remaining 51% on November 1, 2021). Accordingly, the Company remeasured its previously held equity interest in Skelton USA at its estimated fair value on November 1, 2021 resulting in a gain of $37,921 being recognized from the step acquisition.

On October 5, 2021, when management announced definitive agreements to acquire Boyle, the Company entered into a foreign exchange forward contract to manage foreign exchange rate risk related to the Company's net investment in Boyle for which the U.S. dollar is the functional currency. The Company recognized a loss from the hedge of $2,010 in other comprehensive income and as an adjustment to goodwill on
November 1, 2021 when the business combination occurred.

During the year ended December 31, 2021, transaction costs of $1,809 (2020 – $66) have been expensed in selling, general and administrative expenses in the consolidated statements of income and comprehensive income and $104 (2020 – nil), net of deferred taxes, has been charged to share capital in relation to these acquisitions.

Effective October 1, 2020, the Company acquired all of the issued and outstanding shares of TDS Logistics Ltd. ("TDS") and McAllister Courier Inc. ("MCI"), two regionally focused temperature-controlled transportation businesses, in a single transaction with AMG for cash consideration of $15,878, the estimated fair value of the businesses acquired. This related party transaction was accounted for as a business combination under IFRS 3.

The following table summarizes the acquisition date fair value of identifiable net assets and goodwill acquired. As of the reporting date, the Company has not completed the measurement of fair value attributable to the identifiable net assets and goodwill of Skelton USA and Boyle. Accordingly, the fair values for these acquisitions are measured on a provisional basis:

Identifiable assets acquired and liabilities assumed	**Skelton (March 1, 2021)**	**Skelton USA (November 1, 2021)**	**Boyle (November 1, 2021)**	**TDS and MCI (October 1, 2020)**
Cash and cash equivalents	$ 5,662	$ 1,371	$ 8,261	$ 945
Trade and other receivables	4,590	6,329	5,344	3,767
Inventories	451	175	-	-
Prepaid expenses and other	274	1,274	156	126
Property, plant and equipment, including ROU assets	27,840	5,381	20,789	1,396
Intangible assets	39,100	64,685	48,730	7,303
Accounts payable and accrued liabilities	(1,384)	(971)	(7,032)	(1,371)
Income taxes payable	(1,005)	(6,634)	-	-
Due to related parties	-	(3,758)	-	-
Lease liabilities	(7,121)	(3,277)	(2,994)	(599)
Deferred tax liabilities	(13,990)	(18,007)	(17,941)	(1,835)
Total identifiable net assets	54,417	46,568	55,313	9,732
Goodwill	52,889	46,233	49,402	6,146
Net book value of equity-accounted investee	-	(10,117)	-	-
Gain on step acquisition of equity-accounted investee	-	(37,921)	-	-
Total purchase consideration	**$ 107,306**	**$ 44,763**	**$ 104,715**	**$ 15,878**

Trade and other receivables comprise gross amounts due of $16,263 (2020 - $3,767), all of which were expected to be collectible at the acquisition dates.

5. Business combination (continued)

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

The Company attributes value to the customer relationships maintained by Skelton, Skelton USA, and Boyle and to the brands of each acquired entity. For the year ended December 31, 2021, the Company recorded intangible assets of $115,218 (2020 - $7,303) in connection with customer relationships and $37,297 (2020 – nil) in connection with the brands of its acquisitions. The determination of the acquisition-date fair value of the customer relationships required the Company to make significant estimates and assumptions regarding future revenue growth from existing customers, future cost of sales and operating expenses, forecasted attrition rate, contributory asset charges and discount rate. The determination of the acquisition-date fair value of brands required the Company to make significant estimates and assumptions regarding future revenue growth applicable to brands, royalty rate, long-term growth rate used to determine terminal value and discount rate. The customer relationships and brands are definite life intangible assets each of which will be amortized over 10 years (2020 – 5 years).

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

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

6. Trade and other receivables

	December 31, 2021	December 31, 2020
Trade receivables	$ 90,739	$ 58,096
Trade receivables due from related parties (note 21)	108	24
Impairment loss	(754)	(253)
Trade and other receivables	**$ 90,093**	**$ 57,867**

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

7. Inventories

Inventories consist of:

	December 31, 2021	December 31, 2020
Packaging inventory	$ 936	$ 703
Thermal packaging products and parts	546	525
Transportation equipment parts and supplies	849	-
Inventories	**$ 2,331**	**$ 1,228**

In 2021, the Company purchased a total of $8,876 in inventory (2020 - $5,248) and $7,773 was recognized as an expense (2020 - $5,091) during the year and included in direct operating expenses.

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, 2019	$ 96,816	$ 7,807	$ 16,405	$ 85,082	$ 206,110
Additions	28,724	256	1,550	11,208	41,738
Additions through business combinations (note 5)	-	29	398	969	1,396
Dispositions	(185)	-	-	(323)	(508)
Balance at December 31, 2020	125,355	8,092	18,353	96,936	248,736
Additions	26,144	331	866	14,260	41,601
Additions through business combinations (note 5)	8,449	236	2,184	43,141	54,010
Dispositions	(4,233)	-	-	(496)	(4,729)
Foreign currency adjustments	140	5	30	473	648
Balance at December 31, 2021	**$ 155,855**	**$ 8,664**	**$ 21,433**	**$ 154,314**	**$ 340,266**
Accumulated depreciation					
Balance at December 31, 2019	$ 40,531	$ 5,993	$ 7,277	$ 48,983	$ 102,784
Depreciation for the year	13,340	370	1,932	11,516	27,158
Dispositions	-	-	-	(121)	(121)
Balance at December 31, 2020	53,871	6,363	9,209	60,378	129,821
Depreciation for the year	15,527	406	2,148	17,487	35,568
Dispositions	(2,886)	-	-	(341)	(3,227)
Foreign currency adjustments	-	-	-	(8)	(8)
Balance at December 31, 2021	**$ 66,512**	**$ 6,769**	**$ 11,357**	**$ 77,516**	**$ 162,154**
Net carrying amounts					
At December 31, 2020	**$ 71,484**	**$ 1,729**	**$ 9,144**	**$ 36,558**	**$ 118,915**
At December 31, 2021	**$ 89,343**	**$ 1,895**	**$ 10,076**	**$ 76,798**	**$ 178,112**

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

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

9. Goodwill and intangible assets

	Goodwill	Customer relationships	Brand	Software	Total
Cost					
Balance at December 31, 2019	$ 19,720	$ 22,545	$ -	$ 5,553	$ 47,818
Additions	-	-	-	473	473
Additions through business combinations (note 5)	6,146	7,303	-	-	13,449
Balance at December 31, 2020	25,866	29,848	-	6,026	61,740
Additions	-	-	-	1,642	1,642
Additions through business combinations (note 5)	148,524	115,218	37,297	-	301,039
Foreign currency adjustments	2,347	2,188	653	-	5,188
Balance at December 31, 2021	**$ 176,737**	**$ 147,254**	**$ 37,950**	**$ 7,668**	**$ 369,609**
Accumulated amortization					
Balance at December 31, 2019	$ -	$ 22,545	$ -	$ 3,852	$ 26,397
Amortization for the year	-	365	-	499	864
Balance at December 31, 2020	-	22,910	-	4,351	27,261
Amortization for the year	-	5,283	1,376	489	7,148
Foreign currency adjustments	-	-	-	-	-
Balance at December 31, 2021	**$ -**	**$ 28,193**	**$ 1,376**	**$ 4,840**	**$ 34,409**
Net carrying amounts					
At December 31, 2020	**$ 25,866**	**$ 6,938**	**$ -**	**$ 1,675**	**$ 34,479**
At December 31, 2021	**$ 176,737**	**$ 119,061**	**$ 36,574**	**$ 2,828**	**$ 335,200**

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

Operating segment/reportable segment	December 31, 2021	December 31, 2020
Healthcare Logistics	$ 19,720	$ 19,720
Specialized Transportation	157,017	6,146
Total goodwill	**$ 176,737**	**$ 25,866**

9. Goodwill and intangible assets (continued)

The results of the annual impairment testing determined that the recoverable amounts of each of the Healthcare Logistics operating segment and the Specialized Transportation segment exceeded their respective carrying amounts. The recoverable amount of the Company's operating segments was determined using the value in use methodology, which involves discounting estimated future cash flows. Management believes that discounting estimated future cash flows results in a reasonable valuation for each segment. In assessing value in use, the estimated future cash flows have been discounted to their present values using pre-tax discount rates of 12.1% (2020 – 12.0%) for the Healthcare Logistics segment and 13.1% (2020 – 13.0%) for the Specialized Transportation segment, which approximate the Company's weighted average cost of capital for each segment; and expected growth rates for the healthcare sector of between 3.0% and 5.0%. Management has determined that no impairment has arisen in connection with the CGUs that gave rise to goodwill through the business combinations. Accordingly, no impairment loss has been recognized in each of the years ended December 31, 2021 and 2020.

During the year ended December 31, 2021, the Company made acquisitions in which customer relationships and the brands of the acquired companies comprised significant value to AHG. In aggregate, $115,218 was attributed to the customer relationships and $37,297 was attributed to the brands of Skelton, Skelton USA, and Boyle. Management considers these identifiable intangible assets to have finite useful lives which are amortized on a straight-line basis over ten years (note 5).

The Company attributes value to an overlapping customer relationship among MCI, TDS and ATS; and certain ongoing customer relationships with MCI customers which were acquired through business combinations effective October 1, 2020. For the year ended December 31, 2020, customer relationships includes additions of $7,303 in connection with identifiable intangible assets acquired during the year. These customer relationships intangibles are amortized on a straight-line basis over five years (note 5).

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

10. Accounts payable and accrued liabilities

	December 31, 2021	December 31, 2020
Trade payables and accrued liabilities	$ 36,935	$ 24,238
Trade payables due to related parties (note 21)	652	86
Deferred revenue (note 16)	1,817	1,041
Accounts payable and accrued liabilities	**$ 39,404**	**$ 25,365**

11. Credit facilities

	December 31, 2021	December 31, 2020
Revolving credit facility	$ 11,000	$ -
Term facility	50,000	25,000
	61,000	25,000
Less: capitalized financing costs	(712)	(333)
Credit facilities	**$ 60,288**	**$ 24,667**

Recorded in the consolidated balance sheets as follows:

	December 31, 2021	December 31, 2020
Revolving credit facility	$ 11,000	$ -
Term facility	49,288	24,667
Credit facilities	**$ 60,288**	**$ 24,667**

The movement in credit facilities is as follows:

	December 31, 2021	December 31, 2020
Opening balance	$ 24,667	$ 28,484
Changes from financing cash flows		
Issuance of borrowings – revolving credit facility	50,000	-
Issuance of borrowings – term facility	25,000	-
	99,667	28,484
Less: capitalized financing costs	(621)	-
	99,046	28,484
Repayment of revolving credit facility	(39,000)	(3,929)
	60,046	24,555
Non-cash movements		
Amortization of capitalized financing costs	242	112
Ending balance	**$ 60,288**	**$ 24,667**

The Company is party to credit facilities with a syndicate of lenders. On February 19, 2021, in connection with the anticipated acquisitions of Skelton and Skelton USA, the credit facilities were amended to increase the amounts available to be drawn under the revolving credit facility and the term facility each by $25,000. The amended credit facilities comprise a revolving credit facility in the aggregate principal amount of up to $100,000 and a term facility in the aggregate principal amount of up to $50,000. The remaining terms and conditions of the credit facilities were unchanged, except that they will mature and be due and payable on March 1, 2025. There is no repayment schedule for either the revolving credit facility or the term facility, except at maturity; however, the Company classifies the revolving credit facility in current liabilities because of its intention to reduce drawn amounts with cash flow from operations within twelve months. Financing costs of $621, which apply to the credit facilities in aggregate, were capitalized in the term facility in connection with the amendment.

11. Credit facilities (continued)

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, 2021, the credit facilities comprise bankers' acceptances drawn at an interest rate of 1.9% (December 31, 2020 – 1.9%).

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

The credit facilities are subject to customary negative covenants and include financial covenants requiring the Company to maintain at all times a maximum net leverage ratio and a minimum interest coverage ratio, tested on a quarterly basis. At December 31, 2021 and 2020, the Company was in compliance with all of its covenants under the credit facilities.

Amounts recognized in the consolidated statements of income and comprehensive income in connection with interest expense on the credit facilities for the year ended December 31, 2021 was $1,381 (2020 – $665).

12. Financial instruments and financial risk management

Accounting classifications and fair values

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, long-term deposits, accounts payable and accrued liabilities and its credit facilities (refer to note 11). The Company believes that the carrying amount of each of these items, other than the credit facilities, is a reasonable approximation of fair value given the short-term nature of the financial instruments.

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

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, trade and other receivables and long-term deposits. The Company does not typically obtain collateral or other security to support the trade and other receivables 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, trade and other receivables and long-term deposits approximate the amount recorded on the consolidated balance sheets.

12. Financial instruments and financial risk management (continued)

Credit risk (continued)

Trade and other receivables aging is set out below:

	December 31, 2021	December 31, 2020
Current (not past due)	$ 59,742	$ 36,924
0-30 days past due	21,213	12,394
31-60 days past due	4,476	3,975
More than 61 days past due	2,232	2,192
Gross	87,663	55,485
Unbilled revenue	3,184	2,635
Impairment loss (note 6)	(754)	(253)
Trade and other receivables, net	**$ 90,093**	**$ 57,867**

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 trade and other receivables, 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, 2021, $11,000 (2020 - $nil) has been drawn on the $100,000 revolving credit facility, and $50,000 (2020 - $25,000) has been drawn on the $50,000 term facility. There is no repayment schedule for the term facility except at maturity. The credit facilities are repayable in full on March 1, 2025.

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

Interest rate risk

The Company has a revolving and term credit facilities that bear interest at a floating rate subject to fluctuations in the bank prime rate. Changes in the bank prime lending rate can cause fluctuations in interest payments and cash flows. The Company does not use derivative financial instruments to mitigate the effect of this risk. The facilities under this agreement are available to be drawn in Canadian dollars by way of prime rate loans, bankers' acceptances and letters of credit, and in U.S. dollars by way of base rate loans, LIBOR based loans and letters of credit, in each case, plus the applicable margin in effect from time to time. At December 31, 2021, the credit facilities comprises bankers' acceptances drawn at an interest rate of 1.9% (2020 – 1.9%).

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

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 uses derivative instruments to reduce its exposure to foreign currency risk on an exceptional basis, such as in connection with the Boyle Transportation acquisition detailed in note 5.

Excluding its foreign subsidiaries, the Company has the following US dollar foreign currency denominated balances at December 31, 2021 and 2020:

Currency risk	December 31, 2021	December 31, 2020
Cash	$ 8,575	$ 473
Trade and other receivables	12,461	88
Accounts payable and accrued liabilities	3,023	169

13. Share capital

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

On October 26, 2021 the Company, together with the Company's parent, AMG, completed a new issue from treasury of 2.0 million subordinate voting shares and secondary offering of 1.5 million multiple voting shares (which converted to subordinate voting shares at the time of the sale by AMG), on a bought deal basis, at a purchase price of $48.20 per subordinate voting share for aggregate gross proceeds of $96,400 to the Company and $72,300 to AMG. The proceeds of the treasury offering were used to pay the cash portion of the purchase price payable in connection with the acquisitions of Boyle and Skelton USA. Please refer to the Company's short form prospectus dated October 19, 2021.

Transaction costs of $3,181, net of deferred taxes, were incurred in connection with the new issue and have been offset against the proceeds of the subordinate voting shares. Transaction costs of $104, net of deferred taxes, have been offset against subordinate voting shares in connection with acquisitions made during the year ended December 31, 2021 (note 5).

13. Share capital (continued)

As of December 31, 2021, all of the multiple voting shares and 10,200 subordinate voting shares are owned by AMG. The following table summarizes the number of common shares issued (refer to note 24 for further details on subsequent event):

	Number of common shares (in thousands)			Share capital (in thousands of dollars)		
	Multiple voting common shares	Subordinate voting common shares	Total common shares	Multiple voting common shares	Subordinate voting common shares	Total share capital
Balance at December 31, 2020	25,100	12,503	37,603	$ 376,500	$ 173,162	$ 549,662
Shares issued in connection with business combination (note 5)	-	1,799	1,799	-	75,166	75,166
Shares issued in connection with the secondary offering	-	2,000	2,000	-	96,400	96,400
Shares converted in connection with the secondary offering	(1,500)	1,500	-	(22,500)	22,500	-
Transaction costs, net of tax	-	-	-	-	(3,285)	(3,285)
Shares issued in connection with the exercise of options (note 15)	-	267	267	-	1,993	1,993
Balance at December 31, 2021	**23,600**	**18,069**	**41,669**	**$ 354,000**	**$365,936**	**$719,936**
Balance at December 31, 2019	25,100	12,500	37,600	$ 376,500	$ 173,179	$ 549,679
Shares issued in connection with the exercise of options	-	3	3	-	(17)	(17)
Balance at December 31, 2020	**25,100**	**12,503**	**37,603**	**$ 376,500**	**$ 173,162**	**$ 549,662**

Dividends to subordinate voting and multiple voting shareholders

During the year ended December 31, 2021, the Company declared total dividends of $7,854, or $0.20 per common share (2020 – $7,929, or $0.21 per common share), on subordinate voting and multiple voting shares. Included in accounts payable and accrued liabilities as at December 31, 2021 is $2,083, or $0.05 per common share (December 31, 2020 – $1,880, or $0.05 per common share) for dividends payable on January 17, 2022 and January 15, 2021 respectively, to common shareholders of record on December 31, 2021 and 2020 respectively.

14. Earnings per share

Basic earnings per share

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

(in thousands of dollars and number of shares)	December 31, 2021	December 31, 2020
Net income	$ 89,954	$ 37,714
Weighted average number of common shares	39,036	37,600
Earnings per share – basic	**$ 2.30**	**$ 1.00**

Diluted earnings per share

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

(in thousands of dollars and number of shares)	December 31, 2021	December 31, 2020
Net income	$ 89,954	$ 37,714
Weighted average number of common shares	39,036	37,600
Dilutive effects:		
Stock options	928	853
Deferred share units	29	23
Weighted average number of diluted common shares	39,993	38,476
Earnings per share – diluted	**$ 2.25**	**$ 0.98**

15. Share-based payment arrangements

Stock option plan (equity settled)

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

On December 11, 2019 the Board of Directors approved a grant of 1.65 million options, of which 373 thousand options were exercised during the year ended December 31, 2021 (December 31, 2020 – 6 thousand). Of the options outstanding at December 31, 2021, a total of 667 thousand (December 31, 2020 - 700 thousand) are held by non-executive directors; 225 thousand (December 31, 2020 – 400 thousand) are held by executive officers; with the remaining 310 thousand (December 31, 2020 – 544 thousand) held by management personnel. During the year ended December 31, 2021, 69 thousand (December 31, 2020 – nil) options were forfeited due to employee retirements.

15. Share-based payment arrangements (continued)

Stock option plan (equity-settled) (continued)

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

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

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

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

	December 31, 2021		December 31, 2020	
(in thousands of options and in dollars)	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	1,644	$ 15.00	1,650	$ 15.00
Exercised	(373)	15.00	(6)	$ 15.00
Forfeited	(69)	15.00	-	-
Ending balance	1,202	$ 15.00	1,644	$ 15.00
Options exercisable	**615**	**$ 15.00**	**669**	**$ 15.00**

The Company recognized compensation expense of $1,232 for the year ended December 31, 2021 (2020 – $2,371), with corresponding increases to contributed surplus in connection with the vesting of options issued at the time of the initial public offering.

15. Share-based payment arrangements (continued)

Stock option plan (equity settled) (continued)

During the year ended December 31, 2021, 373 thousand options were exercised. A total of 334 thousand options were exercised on a cashless basis and 39 thousand were exercised on a cash basis resulting in 267 thousand subordinate voting common shares being issued from treasury and in the surrender of 109 thousand options used to fund the cashless option exercise. The cash-based exercise resulted in proceeds of $589 and a corresponding increase in share capital. The volume weighted average price used to calculate the cashless exercises in accordance with the Company's Omnibus Equity Incentive Plan ranged between $40.95 and $54.53 per share at the time of exercises resulting in a $1,286 increase in share capital after the proceeds from the sale of 28 thousand shares on behalf of employees were used to fund their withholding taxes. When options are exercised, the option value that was originally recognized is transferred from contributed surplus to share capital. The transfer of the option value of the options exercised resulted in a $1,342 reduction to contributed surplus at $3.60 per share.

Director deferred share units ("DSUs") program (equity settled)

Each non-executive director receives at least 50% of his or her annual director retainer in DSUs. DSUs vest when granted but are not redeemable for settlement until the director ceases to be a member of the Board. The number of DSUs issued is calculated for each director as the director's quarterly retainer divided by the volume weighted average trading price on the TSX for the five trading days prior to such issuance. For the year ended December 31, 2021, the Company recognized a compensation expense of $629, with corresponding increases to contributed surplus (December 31, 2020 – $707).

The table below summarizes the changes in the outstanding DSUs:

(thousands of DSUs)	**December 31, 2021**	**December 31, 2020**
Opening balance	23	-
Granted	14	23
Outstanding at December 31	**37**	**23**

16. Revenue

a) **Revenue streams**

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

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), and revenue disaggregated by primary geographical markets. All of the revenue generated in the United Sates comprises ground transportation revenue.

Major products/service lines	**December 31, 2021**	**December 31, 2020**
Logistics and distribution	$ 115,255	$ 96,976
Packaging solutions	20,072	19,380
Healthcare Logistics segment	**135,327**	**116,356**
Ground transportation	261,870	177,170
Air freight forwarding	29,214	22,482
Dedicated and last mile delivery	52,260	29,795
Intersegment revenue	(38,556)	(31,463)
Specialized Transportation segment	**304,788**	**197,984**
Total revenue	**$ 440,115**	**$ 314,340**

Primary geographical markets	**December 31, 2021**	**December 31, 2020**
Canada	$ 421,114	$ 314,340
United States	19,001	-
Total revenue	**$ 440,115**	**$ 314,340**

c) **Deferred revenue**

One of the Company's specialized transportation operating segments bills customers for transportation services based on the pick-up date. When shipments remain in transit at the end of a period, the Company defers revenue until the shipments are delivered. The Company does not regularly bill customers in advance for logistics and distribution services. Consequently, fluctuations in deferred revenue will occur year over year and will depend on specifically negotiated payment terms resulting from customer billing requests or concerns related to credit risk. To date, the changes in deferred revenue have been largely insignificant. As at December 31, 2021 there was $1,817 (2020 – $1,041) recorded in accounts payable and accrued liabilities (note 10). Revenue recognized in 2021 of $914 (2020 – $836) was included in the opening deferred revenue balance at the beginning of the period.

17. Income taxes

a) Amounts recognized in profit or loss

	December 31, 2021	December 31, 2020
Current income tax expense:		
Current taxes on income for the reporting period	$ 21,117	$ 14,439
Current taxes referring to previous periods and other adjustments	264	698
	21,381	15,137
Deferred income tax recovery:		
Recognition of tax benefits related to loss for the period	(850)	(1,063)
Origination and reversal of temporary differences	3,302	(409)
Impact of change in tax rates of subsidiaries	6	(12)
Previously unrecognized deferred tax assets	-	(4,066)
Deferred taxes referring to previous periods and other adjustments	(153)	(721)
Deductible (taxable) temporary differences not recognized	(5,200)	-
	(2,895)	(6,271)
Income tax expense reported to the statements of income and comprehensive income	**$ 18,486**	**$ 8,866**

Total cash outflow for actual taxes paid for the year ended December 31, 2021 was $16,583 (2020 –$22,927).

b) Amounts recognized directly in equity

	December 31, 2021	December 31, 2020
Transaction costs, before tax	$ 4,469	$ -
Tax	(1,184)	-
Transaction costs, net of tax	**$ 3,285**	**$ -**

c) Reconciliation of effective tax rate

	December 31, 2021	December 31, 2020
Income before income taxes	$ 108,440	$ 46,580
Consolidated Canadian federal and provincial income tax rate	26.5%	26.5%
Income tax expense based on statutory rate	28,737	12,344
(Decrease) increase in income taxes resulting from non-deductible (non-taxable) items or other adjustments	379	695
Gain on step acquisition of equity-accounted investee	(10,050)	-
Share of profit of equity-accounted investee reported	(654)	-
Impact of varying statutory tax rates of subsidiaries	(189)	(102)
Deductible temporary differences not recognized	152	-
Recognized tax losses	-	(4,066)
Taxes relating to previous periods and other adjustments	111	(5)
Total income tax expense	**$ 18,486**	**$ 8,866**

17. Income taxes (continued)

d) Deferred taxes

	December 31, 2021	December 31, 2020
Deferred tax assets	$ 7,832	$ 6,139
Deferred tax liabilities	(50,430)	(1,978)
Net deferred tax (liability) asset	**$ (42,598)**	**$ 4,161**

e) Movement in deferred tax balances

	December 31, 2021	Recognized in equity	Recognized in income or loss	Acquired in business combina-tions (note 5)	Foreign currency adjustments	December 31, 2020
Plant and equipment	$ (12,392)	$ -	$ 1,370	$ (12,534)	$ (176)	$ (1,052)
Accounts payable and accrued liabilities	607	-	154	-	-	453
Intangibles	(40,986)	-	1,849	(40,984)	(766)	(1,085)
Benefit of losses carried forward	2,154	237	614	-	-	1,303
Leases	4,748	-	(358)	3,580	42	1,484
Transaction costs	3,271	947	(734)	-	-	3,058
Net deferred tax (liability) asset	**$ (42,598)**	**$ 1,184**	**$ 2,895**	**$ (49,938)**	**$ (900)**	**$ 4,161**

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

f) Unrecognized deferred tax liabilities

As at 31 December 2021, temporary differences of $40,390 (2020 – $nil) exist in connection with wholly-owned investments in subsidiaries; and the related potential deferred tax liability of $5,352 (2020 – $nil) has not been recognized. The Company controls the dividend policies of its subsidiaries and controls the timing of payment of such dividends. Accordingly, the Company controls the timing of reversal of the related taxable temporary differences; and management is satisfied that they will not reverse in the foreseeable future.

g) Non-capital loss carryforwards

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

The Company has non-capital tax loss carryforwards of $901, $4,012, and $3,209 which will expire in 2039, 2040, and 2041 respectively.

17. Income taxes (continued)

h) **Uncertainty over income tax treatments**

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

18. Leases

The Company leases buildings and equipment in the operation of its Transportation and Logistics businesses. The Company is required to estimate the incremental borrowing rates used to discount lease liabilities if the interest rate implicit in the lease is not readily determined. The Company estimates its incremental borrowing rates for portfolios of leases with similar characteristics, such as similar risk profiles, same or similar types of security, and similar lease terms. Building lease terms range from 5 to 10 years. Facilities lease liabilities are calculated using the Company's incremental borrowing rate based on the specific lease commitments and term for each facility. The average incremental borrowing rate for facilities for the year ended December 31, 2021 is 3.71% (2020 – 2.99%). Equipment lease terms range from 1 to 5 years. Equipment lease liabilities are calculated using the operating segment's average incremental borrowing rate on an equipment lease portfolio basis for that period. The average incremental borrowing rate for equipment for the year ended December 31, 2021 is 3.13% for Specialized Transportation and 2.66% for Healthcare Logistics (2020 – 3.11% for Specialized Transportation; 2.70% for Healthcare Logistics).

Right-of-use assets – Facilities	**As at and for the year ended December 31, 2021**	**As at and for the year ended December 31, 2020**
Opening balance	$ 71,484	$ 56,285
Add: additions	26,144	28,724
Add: additions through business combinations	8,449	-
Less: derecognition	(1,347)	(185)
Less: depreciation	(15,527)	(13,340)
Foreign currency adjustments	140	-
Ending balance	**$ 89,343**	**$ 71,484**

Right-of-use assets – Logistics and transportation equipment	**As at and for the year ended December 31, 2021**	**As at and for the year ended December 31, 2020**
Opening balance	$ 27,256	$ 28,018
Add: additions	7,431	8,048
Add: additions through business combinations	9,349	588
Less: derecognition	-	(183)
Less: depreciation	(10,622)	(9,215)
Foreign currency adjustments	29	-
Ending balance	**$ 33,443**	**$ 27,256**

18. Leases (continued)

Net carrying amounts of right-of-use assets included in property, plant and equipment	December 31, 2021	December 31, 2020
Facilities	$ 89,343	$ 71,484
Logistics and transportation equipment	33,443	27,256
Balance	**$ 122,786**	**$ 98,740**

Lease liabilities – Facilities	As at and for the year ended December 31, 2021	As at and for the year ended December 31, 2020
Opening balance	$ 77,676	$ 60,948
Add: additions	26,144	28,724
Add: additions through business combinations	8,475	-
Add: interest expense	3,700	2,813
Less: derecognition	-	(212)
Less: principal repayments	(13,756)	(11,784)
Less: interest payments	(3,700)	(2,813)
Foreign currency adjustments	142	-
Ending balance	**$ 98,681**	**$ 77,676**

Lease liabilities – Logistics and transportation equipment	As at and for the year ended December 31, 2021	As at and for the year ended December 31, 2020
Opening balance	$ 27,270	$ 27,765
Add: additions	7,431	8,048
Add: additions through business combinations	4,918	599
Add: interest expense	1,138	1,117
Less: derecognition	-	(190)
Less: principal repayments	(11,353)	(8,952)
Less: interest payments	(1,138)	(1,117)
Foreign currency adjustments	16	-
Ending balance	**28,282**	**$ 27,270**

Cash lease principal payments	Year ended December 31, 2021	Year ended December 31, 2020
Repayments of lease principal	$ (25,109)	$ (20,736)
Total lease payments	**$ (25,109)**	**$ (20,736)**

Lease liabilities	December 31, 2021	December 31, 2020
Facilities	$ (98,681)	$ (77,676)
Logistics and transportation equipment	(28,282)	(27,270)
Balance	**$ (126,963)**	**$ (104,946)**

18. Leases (continued)

Lease liabilities included in consolidated balance sheets	December 31, 2021	December 31, 2020
Current	$ (26,446)	$ (21,197)
Non-current	(100,517)	(83,749)
Balance	**$ (126,963)**	**$ (104,946)**

Maturity analysis for lease liabilities – contractual undiscounted cash flows	December 31, 2021	December 31, 2020
Less than one year	$ 30,839	$ 24,720
One to 5 years	86,694	71,506
More than 5 years	23,360	21,678
Total undiscounted lease liabilities	**$ 140,893**	**$ 117,904**

Amounts recognized in the consolidated statements of income and comprehensive income in connection with interest expense for lease liabilities for the year ended December 31, 2021 was $4,838 (2020 – $3,930). Total cash outflow for leases for the year ended December 31, 2021 was $25,109 (2020 – $24,666).

Net investment lease	As at and for year ended December 31, 2021
Opening balance	$ -
Add: additions	1,489
Add: interest received	29
Less: payments received	(705)
Less: interest income	(29)
Ending balance	**$ 784**

During the year ended December 31, 2021, the Company sub-leased a facility to a third party that had previously been classified as a right-of-use asset. The Company derecognized net book value of $1,347 from right-of-use assets and established a net investment lease of $1,489 resulting in a net gain of $142 included in other income in connection with this facility. The current portion of $723 in connection with this net investment lease is included in trade and other receivables. The long-term portion of $61 is recorded in long-term deposits and other. The Company recognized $29 of interest income for year ended December 31, 2021.

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

Maturity analysis for net investment lease receivable – contractual undiscounted cash flows	December 31, 2021	December 31, 2020
Less than one year	$ 734	$ -
One to 5 years	61	-
More than 5 years	-	-
Total undiscounted net investment lease receivable	**$ 795**	**$ -**

19. Interest expense

Interest expense recognized in income and comprehensive income	December 31, 2021	December 31, 2020
Leases	$ 4,838	$ 3,930
Credit facilities	1,381	665
Total interest expense	**$ 6,219**	**$ 4,595**

Interest expense recognized in the consolidated statements of income and comprehensive income equates to total interest paid for the periods ended December 31, 2021 and 2020.

20. Commitments and contingencies

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

b) As at December 31, 2021, the Company had outstanding letters of guarantee in the amount of $365 (2020 – $180).

c) The Company has made commitments to lease fleet equipment, with the terms to begin upon delivery of the equipment in 2022. Commitments range from 72 to 84 months and total $8,512 (2020 – $9,211).

d) The Company has made commitments to purchase fleet equipment totalling $7,820 (2020 – $nil)

21. Related parties

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

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

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

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

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.

21. Related parties (continued)

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

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

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

McAllister Courier Inc. is a subsidiary of AMG (until October 1, 2020, at which time MCI became a wholly-owned subsidiary of the Company – see disclosure under AMG above) and provides transportation services to the Company, providing extended reach for shipments where the Company does not have facilities or equipment.

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

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

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

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

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

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

21. Related parties (continued)

AHG acquired a 49% interest in Skelton USA on March 1, 2021 (note 5) which wholly owns Skelton Truck Lines, Inc. (“SKINC”). SKINC provides specialized 2-8°C transportation services to Skelton Canada Inc. in the United States, and Skelton Canada Inc. provides specialized 2-8°C transportation services to SKINC in Canada. On November 1, 2021, AHG acquired the remaining 51% of Skelton USA. Accordingly, transactions with SKINC have been included in related party transactions in the tables below for the period from March 1, 2021 to October 31, 2021.

	December 31, 2021	December 31, 2020
Revenue		
Transportation services		
TDS Logistics Ltd.	-	534
1708998 Ontario Limited (Medical Courier Services)	360	27
Skelton Truck Lines, Inc.	1,180	-
Facility rent recovery		
TDS Logistics Ltd.	-	492
Shared service recovery		
TDS Logistics Ltd.	-	189
Andlauer Properties and Leasing Inc.	19	35
Andlauer Management Group Inc.	66	12
9143-5271 Quebec Inc.	31	32
1708998 Ontario Limited (Medical Courier Services)	14	12
Equipment rental recovery		
TDS Logistics Ltd.	-	273
McAllister Courier Inc.	-	21
Expenses		
Transportation services		
McAllister Courier Inc.	-	682
1708998 Ontario Limited (Medical Courier Services)	188	167
TDS Logistics Ltd.	-	469
AWA Transportation & Logistics Inc.	-	813
Med Express Ltd.	12	25
Skelton Truck Lines, Inc.	319	-
Contract labour services		
Ready Staffing Solutions Inc.	4,918	4,166
Equipment rent		
Andlauer Properties and Leasing Inc.	2,261	1,875
Facility rent		
Andlauer Properties and Leasing Inc.	1,771	1,447
9143-5271 Quebec Inc.	1,532	1,468
Maintenance services		
D.C. Racking and Maintenance Inc. and Logiserv Inc.	29	64
Travel services		
C-GHBS Inc.	67	174
Capital Expenditures		
Purchases of logistics and transportation equipment		
Logiserv Inc.	20	-

21. Related parties (continued)

	December 31, 2021	December 31, 2020
Trade receivables due from related parties		
AWA Transportation Services & Logistics Inc.	$ -	$ 1
Andlauer Properties and Leasing Inc.	74	20
Med Express Ltd.	2	-
1708998 Ontario Limited (Medical Courier Services)	32	3
Total trade receivables	108	24
Due from related parties		
Andlauer Management Group Inc.	16	10
Andlauer Properties and Leasing Inc.	-	371
Former T.F. Boyle Transportation shareholders	92	-
	108	381
Total due from related parties	**$ 216**	**$ 405**

	December 31, 2021	December 31, 2020
Trade payables due to related parties		
Ready Staffing Solutions Inc.	$ 343	$ 23
Andlauer Properties and Leasing Inc.	302	18
Andlauer Management Group Inc.	-	24
Logiserv Inc.	7	21
	652	86
Due to related parties		
Andlauer Properties and Leasing Inc.	254	-
Former Skelton Canada Inc. shareholders	1,032	-
	1,286	-
Total due to related parties	**$ 1,938**	**$ 86**

Key management personnel

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

Key management personnel compensation comprised the following:

Key management compensation	**December 31, 2021**	**December 31, 2020**
Salaries and benefits	$ 3,310	$ 3,223
Share-based payment arrangements	1,232	1,366
Director deferred share units	629	707
Total key management compensation	**$ 5,171**	**$ 5,296**

22. Capital management

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

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

	December 31, 2021	December 31, 2020
Revolving credit facility	$ 11,000	$ -
Total lease liabilities	126,963	104,946
Term facility	49,288	24,667
Less: cash and cash equivalents	(24,990)	(30,148)
Net debt	162,261	99,465
Net income	89,954	37,714
Interest income	(198)	(285)
Interest expense	6,219	4,595
Income tax expense	18,486	8,866
Depreciation and amortization	42,716	28,022
EBITDA	157,177	78,912
Net leverage ratio	1.03	1.26

23. COVID-19 pandemic

On March 11, 2020 the outbreak of a novel coronavirus known as "COVID-19" was declared a global pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian federal and provincial governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel restrictions, self-imposed quarantine periods, temporary closures or restrictions of non-essential businesses, limitations on public gatherings, and social distancing guidelines, have caused material disruption to businesses globally and in Canada resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions; however, the success of these interventions is not currently determinable.

Depending on the duration of the pandemic, or if the pandemic were to worsen, existing emergency measures may be extended, or additional restrictive measures may be implemented, causing further economic impact and uncertainty. The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position in the future.

23. COVID-19 pandemic (continued)

The Company's pandemic management response team meets regularly to review procedures, service levels, news, and Health Canada updates to address any challenges as they arise. At this time, management does not believe there is any immediate risk of significant disruption to the Company's services. In the event of a future significant disruption to service, the Company will work closely with clients, suppliers and regulatory authorities to prioritize the supply and delivery of essential medications and supplies.

The Government of Canada introduced the Canada Emergency Wage Subsidy ("CEWS") as part of its COVID-19 response. The program was effective from March, 2020 to October, 2021 and provided a wage subsidy for entities that experienced revenue declines over the comparable period in the prior year. During the year ended December 31, 2021, the Company recorded a $1,209 (2020 – $2,366) reduction to direct operating expenses in connection with the CEWS for its Nova Pack Ltd. subsidiary.

24. Subsequent event

On March 1, 2022, the Company acquired 100% of the issued and outstanding shares of Logistics Support Unit (LSU) Inc. ("LSU") for consideration of approximately $30,000, before customary working capital adjustments. LSU is a third-party logistics provider offering specialty pharmacy, warehousing, distribution and order management services throughout Canada to national and international companies as well as government clients in the pharmaceutical, medical and biotechnology sectors.

AHG financed the acquisition through the issuance of 154,639 subordinate voting shares and cash of approximately $22.5 million. The Company financed the cash portion of the purchase price through a combination of cash on hand and by drawing on its credit facilities.

Shares Outstanding (As at March 2, 2022)
Total Subordinate Voting Shares (“SVS”): 18,223,429
Total Multiple Voting Shares: 23,600,000

Stock Exchange Listing
Andlauer Healthcare Group’s SVS are listed on the Toronto Stock Exchange under the symbol “AND”

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Registrar and Transfer Agent
TMX Trust Company

Auditor
KPMG LLP

Legal Counsel
Goodmans LLP

Virtual Annual General Meeting
Thursday, May 5, 2022, at 10 a.m. (ET)
www.andlauerhealthcare.com

Executive Team

Michael Andlauer
Chief Executive Officer

Peter Bromley, CPA, CA
Chief Financial Officer

Stephen Barr
President, Transportation

Bob Brogan
President, Specialty Solutions

Dean Berg
President, Logistics

Board of Directors

Peter Jelley
Chair

Rona Ambrose [1, 2, 3]
Lead Director

Michael Andlauer
Director and Chief Executive Officer

Andrew Clark [1, 2]
Director

Cameron Joyce
Director

Joseph Schlett, CPA, CA [1]
Director

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

Thomas Wellner [1, 3*]
Director

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

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Platform of Companies