HORIZON NORTH

Unaudited Condensed Interim Report to the shareholders for the three and six months ended June 30, 2020

Contents

The following Management's Discussion and Analysis ("MD&A") prepared as at August 11, 2020 for Horizon North Logistics Inc ("Horizon North" or the "Corporation"), provides information concerning Horizon North's financial condition and results of operations. This MD&A is based on unaudited condensed consolidated interim financial statements ("financial statements") for the three and six months ended June 30, 2020 ("Q2 2020") and June 30, 2019 ("Q2 2019"). Readers should also refer to Dexterra's most recent audited consolidated financial statements and MD&A for the year ended December 31, 2019 available on SEDAR, as well as contained in the management information circular of Horizon North dated April 23, 2020. Some of the information contained in this MD&A contains forward-looking statements that involve risks and uncertainties. See "Forward-Looking Information" for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results may differ materially from those indicated or underlying forward-looking information as a result of various factors including those described elsewhere in this MD&A.

The accompanying unaudited condensed consolidated interim financial statements of Horizon North as at and for the three and six months ended June 30, 2020 and June 30, 2019 are the responsibility of Horizon North's management and have been prepared in accordance with International Financial Reporting Standards ("IFRS") and all amounts presented are in thousands of Canadian dollars unless otherwise indicated.

Financial Summary

	Three months ended June 30,			Six months ended June 30,		
(000's except per share amounts)	2020	2019	% change	2020	2019	% Change
Revenue	$ 76,106	$ 66,493	14	$ 136,479	$ 120,774	13
EBITDA[(1) (3)]	22,885	6,164	271	25,033	8,040	211
EBITDA as a % of revenue[(1) (3)]	30%	9%		18%	7%	
Adjusted EBITDA[(1)(3)]	23,241	6,164	277	26,524	8,040	230
Operating income[(3)]	18,893	5,206	263	20,313	6,060	235
Net earnings[(2)(3)]	47,431	3,811	1,145	48,391	4,423	994
Earnings per share						
Basic and diluted	$ 0.22	$ 0.02	1,000	$ 0.26	$ 0.03	767
Total assets	$ 530,302	$ 174,830	203	$ 530,302	$ 174,830	203
Total loans and borrowings	$ 123,988	$ 5,453	2,174	$ 123,988	$ 5,453	2,174
Net Capital spending (proceeds)	$ (1,517)	$ (743)	104	$ (1,501)	$ (1,795)	(16)

(1) Please refer to "Non-GAAP measures" for the definition of EBITDA and Adjusted EBITDA.
(2) Net earnings for the three and six months ended June 30, 2020 includes $34.1 million Bargain purchase gain resulting from the Transaction.
(3) Includes $18.4 million of pre-tax CEWS.

Non-GAAP measures

In this MD&A, Horizon North uses non-GAAP measures including "EBITDA", calculated as earnings before interest, taxes, depreciation, amortization, share based compensation, bargain purchase gain and gain/loss on disposal of property, plant and equipment, "Adjusted EBITDA", calculated as EBITDA before transaction costs, "EBITDA as a % of revenue", calculated as EBITDA divided by revenue, and "Free Cash Flow", calculated as net cash flows from (used in) operating activities, less changes in non-cash working capital for investing activities, capital expenditures, payments for lease liabilities and finance costs, to provide investors with supplemental measures of Horizon North's operating performance and thus highlight trends in its core businesses that may not otherwise be apparent when relying solely on GAAP financial measures. Horizon North also believes that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers. Horizon North's management also uses non-GAAP measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets, and to determine components of management compensation.

Certain measures in this MD&A do not have any standardized meaning as prescribed by generally accepted accounting principles ("GAAP") and, therefore, are considered non-GAAP measures. These measures are regularly reviewed by the Chief Operating Decision Maker and provide investors with an alternative method for assessing the Corporation's operating results in a manner that is focused on the performance of the Corporation's ongoing operations and to provide a more consistent basis for comparison between periods. These measures should not be construed as alternatives to net earnings and total comprehensive income determined in accordance with GAAP as an indicator of the Corporation's performance. The method of calculating these measures may differ from other entities and accordingly, may not be comparable to measures used by other entities. For a reconciliation of these non-GAAP measures to their nearest measure under GAAP please refer to "Reconciliation of non-GAAP measures".

About Horizon North

Horizon North is a publicly listed corporation (TSX: HNL.TO) providing a full range of services across Canada under its three operating divisions: Facilities Management, Workforce Accommodations, Forestry and Energy Services ("WAFES"), and Modular Solutions. Our Facilities Management business delivers operations and maintenance solutions for built assets and infrastructure in the public and private sectors, including aviation, defence, retail, healthcare, education and government. Our WAFES business provides a full range of workforce accommodations solutions, forestry services and access solutions to clients in the mining, forestry, construction and energy sectors. Our Modular Solutions business integrates modern design concepts with off-site manufacturing processes to produce high-quality building solutions for social and affordable housing, commercial, residential and industrial clients. As a result of our diverse product and service offerings, Horizon North is uniquely positioned to meet the needs of our customers in numerous sectors across Canada.

On May 29, 2020, Horizon North entered into a transaction (the "Transaction") with 10647802 Canada Limited, operating as Dexterra Integrated Facilities Management ("Dexterra"), a subsidiary of Fairfax Financial Holdings Limited (TSX: FFH and FFH.U) ("Fairfax Financial"). Pursuant to the Transaction, Horizon North acquired all of the outstanding common shares of Dexterra and in exchange issued 158,929,967 common shares of Horizon North ("Common Shares") to Dexterra's sole shareholder, 9477179 Canada Inc. ("Dexterra Parent"). Fairfax Financial controls a 49% interest in the newly combined Corporation.

For accounting purposes, the Transaction constituted a reverse acquisition ("the Acquisition") that involved a change of control of Horizon North and a business combination of Horizon North and Dexterra, to form a new corporation that now carries on operations as Corporation. Based on the guidance in IFRS 3, Business Combinations, it was determined that Horizon North was the accounting acquiree and Dexterra was the accounting acquirer, as Fairfax Financial, the sole shareholder of Dexterra, now controls Horizon North. As a result, 2019 comparative information included herein is solely Dexterra. Horizon North financial results are included subsequent to the Transaction closing date. Refer to Note 4 of the Q2 2020 financial statements for further information.

COVID-19 Pandemic

On January 30, 2020, the World Health Organization declared the COVID-19 outbreak a Public Health Emergency of International Concern, and on March 11, 2020, characterized COVID-19 as a pandemic. To contain the spread of COVID-19, local, regional, national, and international governments have implemented measures such as restrictions on some business operations, travel, and social distancing requirements. These measures and other factors have caused a global economic downturn and COVID-19 or other similar illnesses have or can result in: a significant decline in economic activity in the regions Horizon North holds assets and conducts business in, a decrease in individuals willing to travel, imposed mobility restrictions or other quarantine measures through government regulations and business interruptions due to outbreaks or required quarantines in one or more of Horizon North's operating facilities. An outbreak in one or more of Horizon North's operating facilities may negatively impact Horizon North's reputation and may, if uncontrolled, result in temporary shortages of staff to the extent Horizon North's work force is impacted. Some of Horizon North's businesses are being classified as "essential services" in various cities and regions and are playing an important role in fighting the COVID-19 virus. Horizon North and its employees are playing a vital role in keeping client operations and infrastructure safe and virus free. The safety of employees and customers continues to be a top priority.

Horizon North's Q2 2020 financial results were impacted as the COVID-19 pandemic became more significant in the second quarter of 2020. Facilities management segment has experienced significant reductions in revenue as a result of reduced services, mainly in the Aviation and Retail markets. The WAFES and Modular Solutions segments have seen less significant declines in revenue but have still been impacted due to lower activity in camp/catering services and the deferral of social and affordable housing projects and timing of portable classroom builds. To mitigate the impact of COVID-19 and to align the expenditures with the reduction in revenues and demand, the Corporation reduced its workforce by approximately 40% when compared to the prior year for similar operations and reduced certain other costs. New business opportunities in the pipeline have also been affected and are expected to shift to future periods. It is impossible to forecast the duration and full scope of the economic downturn caused by the COVID-19 pandemic and the related consequences it will have on the Corporation and its business, including the potential impact on its services once these social distancing policies are lifted. However, at this time, it is unknown to the Corporation how the COVID-19 pandemic will evolve and impact demand for the Corporation's services which may lead to lower revenue; the federal and provincial governments' support programs for businesses to help offset the impact of COVID-19; and the impact on the Corporation's customers and their solvency.

Horizon North entered this crisis with a healthy balance sheet and leverage ratios, and increased its capacity available under its credit facility with the amendment and extension on June 30, 2020. The Corporation is expecting the revenue decrease to continue into the third quarter of 2020, and its management team has implemented plans to modify the cost structure of the business, including reducing its workforce and other costs to mitigate the impact of COVID-19 while continuing to provide essential services to its clients. Additionally, the Corporation has applied for government support programs and qualified for $18.4 million of Canada Emergency Wage Subsidy ("CEWS") funding in the second quarter of 2020 which helped offset the negative earnings impact of COVID-19. Test, test, The Corporation expects that its clients will have heightened requirements for cleaning, disinfecting and building maintenance services and Horizon North should be well positioned to support these expanded requirements.

Management's Discussion and Analysis

Highlights

- Horizon North had Q2 2020 revenue of $76.1 million and EBITDA of $22.9 million, an increase of $9.6 million and $16.7 million respectively, when compared to Q2 2019. Net earnings increased by $43.6 million when compared with Q2 2019, including a non-taxable Bargain purchase gain of $34.1 million;
- Horizon North generated Net cash flows from operating activities in Q2 2020 of $7.8 million, compared to the $6.5 million used in Q2 2019, an increase of $14.2 million primarily reflecting the $43.6 million increase in Net earnings of the combined company, partially offset by the non-cash Bargain purchase gain of $34.1 million;
- EBITDA was positively impacted by $18.4 million from the CEWS program in Q2 2020;
- The Facilities Management business had Q2 2020 revenue of $29.6 million, a decrease of 24%, from Q2 2019. EBITDA for the same period was $10.5 million, an increase of $8.7 million when compared to Q2 2019. CEWS impact was $9.3 million;
- The Modular Solutions business had revenue of $11.0 million for the one month reported for Q2 2020 and EBITDA of $2.3 million. Backlog[1] exiting the quarter was $70.7 million at June 30, 2020. The sales funnel of high-quality, high probability opportunities, including significant opportunities in Ontario, over the next 12 to 24 months was $261.4 million at June 30, 2020. CEWS impact was $1.2 million;
- The WAFES business had Q2 2020 revenue of $36.3 million, an increase of 31%, from Q2 2019. EBITDA for the same period was $12.4 million, an increase of $6.7 million when compared to Q2 2019. The CEWS impact was $7.1 million;
- Horizon North reached an agreement with its lenders to amend its credit facility and extend the maturity date to December 30, 2022. The Credit Facility now has an increased available limit of $175.0 million giving the newly combined Corporation increased capacity for future operating and growth as well as improved financial flexibility;
- Horizon North has achieved cost synergies that will save the Corporation $18.0 million annually going forward, primarily through pre and post acquisition lay offs and restructuring. Further cost synergies will be realized as future integration is achieved. Revenue synergies are planned as the business units collaborate on the life cycle of customer assets;
- Subsequent to the quarter ended June 30, 2020, Horizon North was awarded damages payable by two former customers through legal proceedings in the amount of $7.6 million plus interest and legal costs, of which $6.9 million was received in early August. Additionally the June CEWS claim was received in July of $10.5 million. The related subsequent cash receipts of $18.1 million have further reduced debt; and
- Horizon North announced today that its Board of Directors has declared a dividend for the third quarter of 2020 at $0.075 per share. The dividend is payable to shareholders of record at the close of business on September 30, 2020 to be paid on October 15, 2020. The Board of Directors regularly monitors the strength of the Statement of Financial Position, cash from operations and capital requirements to ensure the overall sustainability of Horizon North is not compromised. The dividends will be eligible dividends for Canadian tax purposes.

Quarterly Operational Analysis

Revenue for Q2 2020 was $76.1 million which was $9.6 million or 14% higher when compared to Q2 2019. The increase is attributable to $26.3 million of revenue from the acquisition of Horizon North, partially offset by the COVID-19 related revenue loss impacts of $16.7 million.

Facilities Management

Facilities Management revenues in Q2 2020 were $29.6 million and decreased by $9.2 million or 24% from the $38.8 million in Q2 2019. Facilities Management revenue decreased primarily due to the temporary closure or reduction in operations at certain facilities as a result of COVID-19, mainly in the aviation and retail sectors. This was partially offset by revenue of $2.0 million from the Powerful Group of Companies ("PGC") which was acquired in November 2019, and realization of new sales secured of $1.9 million.

EBITDA as a percentage of revenue increased to 35% in Q2 2020 from 5% in Q2 2019 due to the inclusion of $9.3 million CEWS in Q2 2020. When adjusting for CEWS, EBITDA margin decreased to 4.0% for Q2 2020 which was mainly associated with increased costs in the healthcare sector and additional costs associated with operating in a COVID-19 environment.

[1] Backlog is the total value of work that has not yet been completed that: (a) has a high certainty of being performed based on the existence of an executed contract or work order specifying job scope, value and timing; or (b) has been awarded to Horizon North, as evidenced by an executed letter of award or agreement, describing the general job scope, value and timing of such work, and where the finalization of a formal contract in respect of such work is reasonably assured and expects to be recognized in the next 12 months.

Year to date, Facilities Management revenues were $73.0 million and decreased by $4.9 million or 6% from the $77.9 million in 2019. Facilities Management revenue decreased primarily due to the temporary closure or reduction in operations at certain facilities as a result of COVID-19 by $13.5 million, mainly in the aviation and retail sectors. This was partially offset by revenue of $4.5 million from PGC and realization of new sales secured of $5.9 million.

EBITDA as a percentage of revenue increased to 18% in the first half of 2020 from 4% in 2019 due to the inclusion of $9.3 million CEWS in 2020. When adjusting for CEWS, EBITDA margin increased to 5% for the first half 2020 in comparison to 4% of prior year first half mainly due to repositioning its service offerings and focusing on higher margin projects in the more complex and facilities management solutions business. This margin increase experienced in Q1 2020 is expected to be fully realized in the post pandemic environment.

Direct Costs

Direct Costs for Q2 2020 were $18.3 million compared to $36.2 million in Q2 2019, a decrease of $17.9 million or 50%, mainly due to the inclusion of $9.3 million CEWS in Q2 2020 and proactive management of costs to align with lower revenue in the COVID-19 environment. When adjusting for CEWS, direct expenses as a percentage of revenue were at 93% in Q2 2020 compared to 93% in Q2 2019.

For the first half of 2020, Direct Costs were $58.0 million compared to $72.8 million in 2019, a decrease of $14.8 million or 20% mainly due to the inclusion of $9.3 million CEWS in 2020. When adjusting for CEWS, direct costs as a percentage of revenue were at 95% in the first half of 2020 compared to 93% in the prior year partly due to the reduction in variable costs in response to COVID-19.

Modular Solutions

Modular Solutions consists of manufacturing, transportation and installation of residential, industrial and commercial modular buildings.

The Modular Solutions business was part of the Acquisition of Horizon North which closed on May 29, 2020. Modular Solutions segment revenues for Q2 2020 and the first six months of 2020 were $11.0 million, reflecting revenues generated since the Acquisition primarily focused on social and affordable housing, industrial projects and portable classrooms.

EBITDA for Q2 2020 and the first six months of 2020 was $2.3 million, which included $1.2 million of CEWS impact. Strong EBITDA reflects the focus on social and affordable housing projects where performance and execution have been strong as well as the positive impact of cost reductions and improved efficiencies in western Canada operations combined with continued strong performance from eastern Canada which has optimized utilization of plant capacity.

A key metric for the Modular Solutions segment is the backlog of projects and timing of backlog execution. The focus for this business unit will be to secure and increase backlog, which was $70.7 million at the end of Q2 2020.

As part of the Acquisition the Corporation acquired a site and inventory related to a 120-room Fairfield by Marriott located in Kitimat, British Columbia. Spending on the hotel has been ceased, and the Corporation is actively seeking a buyer for this project.

Direct Costs

Direct costs are comprised of labour, raw materials and transportation which vary directly with revenues, and a relatively fixed component which includes rent, utilities and the design and technical services required in the bidding cycle and post award manufacturing and installation of the product.

Direct costs were 75% of revenues in Q2 2020 and the first six months of 2020. Direct costs are driven by labour and were positively impacted by the $1.2 million of CEWS during the period.

Workforce Accommodations, Forestry and Energy Services ("WAFES")

WAFES is comprised of three revenue streams:

- Workforce accommodations revenue which includes: the service and transport revenue associated with camp setup and demobilization activity, catering and housekeeping activities, and equipment sales and rental revenue.
- Forestry which includes: tree planting, forest clearing and thinning, and Type-2[2] firefighting services to public and private sector customers in Quebec, Ontario, Saskatchewan and Alberta; and

[2] Type 2 firefighters (contract crews) are often called on to assist with wildfires that have lower intensity and present a lower risk to firefighter safety. These contract crews are typically used in wildfires that are considered to be contained, under control or in mop-up stage.

- Energy services which includes: relocatable structures (office units, lavatory units, mine dry units, wellsite units and associated equipment); access mat rentals, equipment sales and installation, transportation, service, and other revenue associated with the rentals, sales, and soil stabilization.

WAFES has been deemed an essential service and its revenue performance has been strong in a COVID-19 environment. Revenues from the WAFES segment for Q2 2020 were $36.3 million, an increase of $8.6 million or 31% compared to Q2 2019. The increase in Q2 2020 segment revenues was driven by the Acquisition of Horizon North which added $16.1 million of revenue. When adjusting Q2 2020 revenue to remove the Acquisition related revenue, revenue for WAFES decreased by $7.5 million to $20.2 million. This was primarily due to decreased Workforce accommodations and forestry revenue.

EBITDA as a percentage of revenue increased to 34% in Q2 2020 from 21% in Q2 2019 mainly due to the inclusion of $7.1 million CEWS and Acquisition related EBITDA of $3.5 million. When adjusting for CEWS and the Acquisition, EBITDA as a percentage of revenue is 8% which is a decrease of 13% compared to Q2 2019. This decrease of margin is related to reduced revenues from higher margin firefighting and forestry related services and revenue mix of infrastructure install and catering activities.

Revenues from the WAFES segment for the six months ended June 30, 2020 were $53.3 million an increase of $10.4 million or 24% compared to same period in 2019. The increase in segment revenues was driven by the Acquisition of Horizon North which added $16.1 million of revenue. When adjusting revenue to remove Acquisition related revenue, revenue for WAFES decreased by $5.7 million to $37.2 million. This was primarily due to decreased Workforce accommodations and forestry revenue.

Year to date, EBITDA as a percentage of revenue increased to 27% from 16% in the same period in 2019 mainly due to the inclusion of $7.1 million CEWS and acquisition related EBITDA of $3.5 million. When adjusting for CEWS and the Acquisition, EBITDA as a percentage of revenue is at 8% which is a decrease of 8% compared to 2019. This decrease of margin is related to reduced revenues from higher margin firefighting related services and the higher revenue mix of infrastructure install and catering activities.

Workforce accommodations and forestry revenue

Revenues from workforce accommodations and forestry for Q2 2020 were $33.6 million and increased by $5.9 million or 21% compared to Q2 2019. The increase in Q2 2020 was driven by the acquisition of Horizon North. When adjusting Q2 2020 revenue to remove Acquisition related revenue of $13.4 million, revenue for the workforce accommodation and forestry decreased by $7.5 million to $20.2 million. This was due to a $5.2 million revenue decrease under forestry services primarily under fire camps and firefighting services due to no major wild fires in Ontario, Alberta and British Columbia in 2020, and a reduction of $3.5 million revenue associated with temporary closure and reduction in operations at certain client facilities as a result of COVID-19.

Revenues from workforce accommodations and forestry for first half of 2020 were $50.6 million and increased by $7.7 million or 18% compared to 2019. The increase in revenues was driven by the acquisition of Horizon North. When adjusting first half 2020 revenue to remove acquisition related revenue of $13.4 million, revenue for the workforce accommodation and forestry decreased by $5.7 million to $37.2 million. The decrease in revenue was primarily due to a decrease in seasonal work under forestry services, mainly for fire camps and firefighting services, and a reduction in revenue associated with temporary closure and reduction in operations at certain client facilities as a result of COVID-19. This was partly offset by increased activity under infrastructure install and rental activities as a result of new contracts in Q1 2020.

Energy Services

Revenues from energy services for Q2 2020 and the six months ended June 30, 2020 were $2.7 million as the energy services business was acquired from Horizon North. Revenue for energy services was primarily from mat and relocatable structures rentals combined with equipment sales and installation, transportation, service and other revenue. The Corporation has temporarily closed the mat manufacturing plant due to lower business activity.

Direct Costs

Direct costs in the WAFES business unit for Q2 2020 were $23.3 million or 64% of revenue compared to $21.6 million or 78% of revenue for Q2 2019. Direct costs in Q2 2020 includes $10.5 million of costs from the acquired operations, partially offset by $7.1 million of CEWS. When adjusting for CEWS and Acquisition related operational costs, direct costs were $18.5 million or 92% of revenue which is an increase of 13% compared to the prior year. This increase as a percentage of revenue is the result of the decrease in high margin firefighting related services and increase in revenues from lower margin projects and the impact of costs required to run the business in the pandemic on a lower revenue base.

Direct costs in the WAFES business unit for the six months ended June 30, 2020 were $37.9 million or 71% of revenue compared to $35.3 million or 82% of revenue for 2019. Direct costs in 2020 includes $10.5 million of costs associated with operations acquired on May 29, 2020, partially offset by $7.1 million of CEWS. When adjusting for CEWS and Acquisition related operational costs, direct costs were $33.6 million or 90% of revenue, which is an increase of 8% compared to the prior year. This increase as a percentage of revenue is the result of the decrease in high margin firefighting related services and revenues from lower margin projects and the impact of costs required to run the business in the pandemic on a lower revenue base.

Other Items

Selling, General & Administrative Expense

Selling, general & administrative expenses are comprised of sales and marketing costs associated with each segment, along with corporate costs reflecting head and corporate office costs including the Named Executive Officers of the Corporation, and shared services including information technology, corporate accounting staff and the associated costs of supporting a public company.

Selling, general & administrative expenses for Q2 2020 were $4.1 million, an increase of $1.6 million compared to Q2 2019, mainly due to the Acquisition and transaction costs of $0.4 million incurred for the Acquisition. As a percentage of revenue, selling and administrative expenses were 5% in Q2 2020 and 4% in Q2 2019 after adjusting for transaction costs, though this is reduced by CEWS funding of $0.8 million.

Selling, general & administrative expenses for the six months ended June 30, 2020 were $8.0 million, an increase of $3.4 million compared to 2019, mainly due to the Acquisition of Horizon North, transaction costs of $1.5 million incurred for the Acquisition and business development to support growth. As a percentage of revenue, selling and administrative expenses were 5% and 4% in 2020 and 2019, respectively, after adjusting for transaction costs.

Bargain Purchase Gain

A bargain purchase gain of $34.1 million was recorded on the Acquisition, which was based on the fair value of the consideration received by Fairfax which was equal to the share price at the Acquisition close date in the amount of $100.9 million. The bargain purchase gain equates to the difference between the estimated fair value of the net assets acquired of Horizon North of $135.0 million and the consideration received by Fairfax, as disclosed in Note 4 "Business Combination" of the Q2 2020 financial statements.

Finance costs

Finance costs include interest on loans and borrowings and interest on lease liabilities. For Q2 2020, finance costs were $0.9 million, an increase of $0.9 million compared to Q2 2019, due to the increase in the credit facility as well as the lease liabilities from the Acquisition. For the first six months of 2020, finance costs were $1.0 million, and increase of $1.0 million compared to 2019, for the same reasons as the increase in Q2 2020.

The effective interest rate on loans and borrowings for the six months ended June 30, 2020 was 5.3%. The effective interest rate in the first six months of 2020 was driven by the higher debt levels through the acquisition of Horizon North and the tiered interest rate structure of the credit facility and increased debt to EBITDA ratios, which affect interest rates on Horizon North's credit facility.

Goodwill and intangible assets

Goodwill of $98.6 million is made up of $96.0 million recognized on the acquisition of the Carillion Services Assets in 2018 and $2.6 million recognized on the acquisition of the Powerful Group of Companies in 2019. Goodwill is not amortized. The goodwill relating to the Carillion Services Assets is deductible for tax purposes.

During the second quarter of 2020 the Corporation updated its impairment assessments on its goodwill and customer relationships for estimation uncertainty in determining discounted cash flows and the underlying assumptions about discount rates, working capital requirements and other inputs, due to the unpredictable duration and impacts of the COVID-19 pandemic. The Corporation has assumed that the economic impacts of COVID-19 will remain for the duration of government mandated restrictions by jurisdiction as currently known, with gradual lifting of those restrictions.

The uncertainty in those assumptions have been incorporated into the Corporation's discounted cash flows used to determine recoverable amounts primarily through the adjustment of short-term cash flows and higher discount rates, as applicable. The Corporation concluded there was no impairment of its goodwill or intangibles at June 30, 2020.

Income taxes

For the three and six months ended June 30, 2020, the Corporation's effective income tax rate decreased from the expected statutory rate to 9.0% and 9.4%, respectively, primarily due to the Acquisition of Horizon North and related non-taxable bargain purchase gain as further discussed in Note 15 of Horizon North's Q2 2020 financial statements.

For the three and six months ended June 30, 2019, the Corporation's effective income tax rate of 26.2% was relatively consistent with the statutory rate.

The Corporation has non-capital losses for Canadian tax purposes of $73.3 million available to reduce future taxable income in Canada, and non-capital losses for United States tax purposes of $0.8 million available to reduce future taxable income in the United States, which will expire after 2022. Through the ongoing integration plan, management expects to utilize these losses and realize the cash benefits in subsequent income tax filings.

Deferred tax assets of $2.2 million have not been recognized in respect of certain tax losses. Tax losses not recognized expire in 2027 and beyond and amount to $7.1 million. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the subsidiary of the Corporation can utilize the benefits.

Gain/Loss on disposal

For Q2 2020, the loss on disposal was $0.04 million compared to a gain on disposal of $0.05 million in Q2 2019. For the first half of 2020, the gain on disposal was $0.50 million compared to a gain on disposal of $0.05 million in 2019. The gains and losses on disposals are typically generated from ongoing fleet management of operational assets and rationalization of idle assets.

Non-controlling interest

Horizon North owns 49% of Tangmaarvik Inland Camp Services Inc. ("Tangmaarvik") and controls its operations. As a result, the results of Tangmaarvik are consolidated with the results of Horizon North and a non-controling interest is recorded. For three and six months ended June 20, 2020 non-controlling interest of $0.3 million and $0.4 million was recorded, respectively, compared to $0.2 million and $0.1 million in the same periods of the prior year.

Related party transactions

In March 2020, the Corporation purchased property, general liability, automobile and umbrella insurance for $1.5 million with a one-year term from Northbridge General Insurance Corporation ("Northbridge"), a company with the same controlling shareholder as Horizon North. As at June 30, 2020, Horizon North also has performance and labour bonds outstanding with Northbridge totaling $59.4 million. All related party transactions were measured at arms length and there are no ongoing contractual or other commitments resulting from the transactions.

Outlook

Operations Outlook

The Acquisition, which was completed on May 29, 2020, has created a leading support services company in Canada that offers a range of services in light asset facilities management, workforce accommodations, industrial services and modular construction solutions to a broader base of combined customers across a more diversified industry and geographic platform throughout Canada.

The Corporation significantly improved its leverage and liquidity position through the Acquisition as well as the amended and extended credit facility with increased limit to $175 million. At June 30, 2020 the Corporate had $46.1 million of available liquidity which provides it with improved financial flexibility to manage through the remainder of 2020 and beyond. The Corporation continues to optimize further cost synergies and is working toward revenue synergies for the life cycle of client assets from construction to facility management.

Facilities Management

Horizon North's business strategy is to provide more complex (integrated) service solutions, where there are better growth prospects and where margins are higher, and less single or soft service solutions over time. Integrated service offerings paired with special expertise operating and managing special purpose facilities, including defence assets, airports, hospitals, and research facilities, supports a strong value proposition to clients with complex projects or sophisticated facilities. Through its long-term client contracts, national footprint and diverse client base, the Corporation's facilities management segment has reduced exposure to volatility in the market.

As businesses are expected to reopen in the third quarter of the year, the Corporation expects that its clients will have heightened requirements for cleaning, disinfecting and building maintenance services and Horizon North should be well positioned to support these expanded requirements. While the Corporation reduces its variable cost structure to align with the expected lower revenue, the Corporation cannot accurately predict the extent to which COVID-19 will impact its operations.

The Corporation has built credibility in the market through the strength of client and stakeholder relationships and a sustained focus on innovation including the application of technology. The Corporation's competitive position is further enhanced by decades of experience, cross sector expertise in support services solutions and a diverse portfolio of accounts including in urban and remote locations.

The Corporation believes that a significant self-delivery capability in the major spend categories of facilities management, in both hard and soft facilities management work steams, is an important success factor. In 2019, the Corporation completed the acquisition of PGC, bolstering the Corporation's self-delivery capability through the addition of a mobile multi-tech contracting platform. In 2020, the Corporation will complete the integration of PGC into the Corporation and replicate this capacity in major urban regions across Canada.

Modular Solutions

The Corporation will continue to focus on government sponsored housing and portable classrooms with a compliment of industrial and commercial projects in its Modular Solutions segment in 2020. Horizon North's focus will remain on growing backlog and on optimizing execution of modular construction projects while developing and expanding its product offerings to serve a variety of customers and end markets. In addition, a portion of manufacturing capacity in 2020 continues to be utilized for modular units and large complexes associated with the Corporation's contract with a client supporting LNG development in British Columbia.

The Modular Solutions division is well positioned to benefit from the increased Federal and Provincial support for affordable and social housing through the demonstrated success of the affordable and social housing strategy and execution in Western Canada in combination with the addition of southern Ontario manufacturing capacity. Horizon North will continue to explore opportunities across the pan-Canadian geography to grow the affordable and social housing backlog of projects and has signed a contract with the City of Toronto to design, deliver and install 100 modular units of permanent supportive housing in the first phase of the City of Toronto's modular pilot initiative. Upon completion, this initiative would see up to 250 modular supportive homes constructed in Toronto and revenue from the first phase of this project is expected to be between $17.0 and $20.0 million.

The Modular Solutions division will focus on affordable and social housing projects and does not expect to build hotels in the foreseeable future. A number of corrective actions including closure of the Aldergrove, British Columbia facility, temporary shutdown of the Calgary facility and significant reductions in overhead costs have been executed. Management expects these changes to improve efficiency and profitability for the Modular Solutions division overall.

WAFES

Horizon North is a leading provider of turn-key workforce accommodations, hospitality services, forestry, and energy services with focus on the following six key areas:

- West Coast Hydrocarbon Terminals/Liquefied Natural Gas
  - Horizon North has completed the first phase of development of its 57-acre parcel of land located in Kitimat, British Columbia and the world-class 736-bed Crossroads Lodge is fully operational with high occupancy rates.
  - Activity continues on previously announced contracts to provide equipment, catering, hospitality and operations services for camps in support of construction work on the Coastal Gas Link Project in British Columbia. Horizon North continues to aggressively pursue opportunities related to additional Western Canadian pipeline infrastructure projects, as well as announced and potential projects related to hydrocarbon shipping terminals and LNG projects on the West coast.
- Montney/Duvernay - Oil and natural gas development and related infrastructure activity in this region is significantly reduced and is expected to continue through 2020 due to the COVID-19 pandemic and diminished commodity prices. Horizon North is the largest provider of contracted and open camp services in this area and will continue to leverage existing assets, strategic locations and key customer relationships to protect market share in the region.
- Demand for forestry services, such as tree planting and thinning, is driven primarily by private forestry companies and provincial crown corporations. The market for these services has been stable and is expected to remain strong in Q3 2020. Quebec is the largest region of activity for our forestry services business. The reduced number of workforce accommodation competitors and opportunities supporting mining activities and infrastructure throughout Northern Quebec is an opportunity. Horizon North services include providing type-2 firefighters to support wildfire operations in Ontario and Alberta and also supplies fire camps for the Alberta and Ontario governments to accommodate provincial firefighters and other wildfire response personnel. The nature of work and volume of activity is dependent on the number of wildfires in the season.
- Northern Canada - Horizon North has a long history and expertise in providing workforce accommodations, hospitality and other services across Canada's Northern regions. Opportunities within the Northwest Ontario mining and power infrastructure sectors have been captured and we continue to pursue growth opportunities with key clients in terms of their arctic development plans. Horizon North will continue to focus on developing and expanding its capabilities and footprint across Canada's remote Northern regions.
- Energy Services - The transportation fleet, mechanical shops and associated staffing has been significantly rationalized by approximately 50%. This includes a pause in matting manufacturing and temporary closure of the related plant. Rental utilization remains significantly lower than historical averages at this time due primarily to the reduced activity in the Montney/Duvernay area and is expected to remain lower than historical averages for remainder of 2020.

- Oil Sands - Horizon North expects to leverage its strong operational footprint and experience to pursue both turn-key opportunities and long-term catering and hospitality opportunities in existing customer-owned facilities underpinned by prominent relationships with aboriginal communities North and South of Fort McMurray.
- A key strength of Horizon North is a national footprint active in the major resource development regions: Alberta, British Columbia, Manitoba, Ontario, Quebec and Nunavut. Horizon North has a long history of operating in these regions and strong network of relationships with indigenous communities. Workforce accommodations new sales have been behind plan primarily due to COVID-19 and market conditions but are expected to pick in Q3 and Q4 of 2020, especially around the mining industry and powerline projects in Central Canada. The Outland Youth Employment program, Horizon North's community driven initiative that works towards equity and opportunity for Indigenous youth, remains a central component of Horizon North northern business plan as it allows Horizon North to expand relationships with Indigenous stakeholders which are critical to its collective success.

Liquidity and Capital Resources

For the six months ended June 30, 2020, cash generated by operating activities was $12.8 million, compared to $0.5 million of cash used in the same period of 2019. The variance was driven primarily by the $44.0 million increase in net earnings for the period partially offset by the $34.1 million non-cash impact of the bargain purchase gain and fluctuations in non-cash working capital.

The significant increase in cash flow from investing activities for the six months ended June 30, 2020, compared to the same period in 2019, is mainly related to proceeds on asset sales combined with fluctuations in non-cash investing working capital compared with 2019 payments of $17.6 million and $7.4 million to former shareholders of Carillion Canada in connection with the acquisition of the Carillion Services assets.

Cash flows from financing activities decreased due to the utilization of the credit facility to fund daily operations including merger related costs and increased finance costs combined with $17.6 million in proceeds received in exchange for common shares in 2019. Fiance activities include payments on loans and borrowings, finance costs paid and the cash impact of finance leases.

Working capital at June 30, 2020 was $87.6 million, compared to $19.6 million at December 31, 2019, an increase of $68.0 million. This was mainly due to $63.7 million of working capital acquired in the Acquisition. Working capital for the business is impacted by seasonality, particularly in the first and third quarters.

Borrowing capacity *(000's)*	June 30, 2020	December 31, 2019
Bank borrowing:		
Available credit facility	$ 175,000	$ 32,000
Drawings on credit facility	125,055	5,453
Letters of credit	3,796	2,915
Borrowing capacity[(1)]	$ 46,149	$ 23,632

(1) Calculated as available bank lines less drawings on credit facility and letters of credit.

Effective June 30, 2020, Horizon North reached an agreement with its lenders to amend its Credit Facility and extend the maturity date to December 30, 2022. The Credit Facility has an available limit of $175.0 million and is secured by a $400.0 million first fixed and floating charge debenture over all assets of the Corporation and its wholly-owned subsidiaries. The interest rate for the credit facility is calculated on a grid pricing structure based on the Corporation's debt to EBITDA ratio. Amounts drawn on the credit facility incur interest at bank prime rate plus 1.00% to 2.25% or the Bankers' Acceptance rate plus 2.00% to 3.25%. The credit facility has a standby fee ranging from 0.50% to 0.8125%.The operating facility in place at December 31, 2019 was Dexterra's stand-alone facility prior to the Transaction. The facility was repaid in May 2020, and was cancelled on May 29, 2020 upon closing the Transaction.

The Corporation's financial position and liquidity remain strong. The Corporation has generated Free Cash Flow of $17.7 million in the first half of 2020. In future quarters, principal sources of liquidity include generated Free Cash Flow plus non-recurring cash receipts received in Q3 2020 from litigation proceeds of $7.6 million and the June CEWS claim received in July of $10.5 million. Additionally the Corporation deferred any further spending on the Fairfield by Marriott hotel in Kitimat, British Columbia while actively searching for a buyer, consistent with the capital light strategy of the new combined entity, and are actively looking to dispose of idle or under utilized assets across its operating segments. As at June 30, 2020, the Corporation was in compliance with all financial and non-financial covenants related to the credit facility.

Capital Spending

For the six months ended June 30, 2020, gross capital spending was $1.2 million compared to $1.8 million in the same period of 2019. Capital spending in Q2 2020 was mainly focused on small equipment.

Management evaluates and manages its capital spending plans taking into account proceeds from the sale of property, plant and equipment, resulting in net capital proceeds of $1.5 million for the six months ended June 30, 2020 compared to net capital spending of $1.8 million in 2019. Capital spending was offset by the proceeds received on selling underutilized energy services assets.

Horizon North does not currently have any material capital commitments associated with contracts to supply equipment or to purchase property, plant and equipment, other than the contract for the provision of rental modular units and large complexes for a client supporting LNG development in the WAFES segment.

Management expects that normalized recurring capital spending should approximate $5 million per annum.

Quarterly Summary of Results

	Three months ended			
(000's except per share amounts)	2020 June	2020 March	2019 December	2019 September
Revenue	$ 76,106	$ 60,373	$ 64,134	$ 76,151
EBITDA	22,885	2,487	3,240	5,184
Net earnings attributable to shareholders	47,139	864	1,370	3,330
Net earnings per share, basic and diluted	0.22	0.01	0.01	0.03

	Three months ended			
(000's except per share amounts)	2019 June	2019 March	2018 December	2018 September
Revenue	$ 66,493	$ 54,281	$ 53,810	$ 75,818
EBITDA	6,164	1,876	2,464	5,645
Net earnings attributable to shareholders	3,566	752	1,109	3,304
Net earnings per share, basic and diluted	0.02	0.00	0.01	0.03

Net earnings and Adjusted EBITDA both increased significantly in the second quarter of 2020 due primarily to the Acquisition of Horizon North and the resulting $34.1 million bargain purchase gain combined with the $18.4 million CEWS impact. Revenue has also increased in the second quarter of 2020 primarily due to the Acquisition of Horizon North and associated revenue of $16.1 million partially offset by the impacts of COVID-19 on operations.

Reconciliation of non-GAAP measures

The following provides a reconciliation of non-GAAP measures to the nearest measure under GAAP for items presented throughout the MD&A.

(000's)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net earnings	$ 47,431	$ 3,811	$ 48,391	$ 4,423
Add:				
Share based compensation	49	—	49	—
Depreciation & amortization	3,871	1,003	5,142	2,025
Equity investment depreciation	33	—	33	—
Finance costs	924	45	1,043	69
Bargain purchase gain	(34,128)	—	(34,128)	—
Loss (Gain) on disposal of property, plant and equipment	39	(45)	(504)	(45)
Income tax expense	4,666	1,350	5,007	1,568
EBITDA	$ 22,885	$ 6,164	$ 25,033	$ 8,040
Transaction costs	356	—	1,491	—
Adjusted EBITDA	$ 23,241	$ 6,164	$ 26,524	$ 8,040

(000's)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Net cash flows from (used in) operating activities	$ 7,752	$ (6,482)	$ 12,839	$ (506)
Changes in non-cash working capital, investing activities	5,743	—	5,743	—
Net capital proceeds (spending)	1,517	(788)	1,501	(1,840)
Finance costs paid	(1,390)	(45)	(1,512)	(69)
Lease payments	(739)	(115)	(869)	(217)
Free Cash Flow	$ 12,883	$ (7,430)	$ 17,702	$ (2,632)

Changes in Accounting Policies

Horizon North's changes to accounting policies are provided in Note 3 of the Q2 2020 financial statements and in the audited Consolidated Financial Statements of Horizon North and Dexterra for the years ended December 31, 2019 and 2018, available on SEDAR.

Outstanding Shares

During the Annual and Special Meeting of Shareholders held on July 10, 2020, a special resolution (the "Share Consolidation Resolution") authorizing the consolidation (the "Consolidation") of the Corporation's issued and outstanding common shares ("Common Shares") on the basis of one (1) new post-Consolidation Common Share for every five (5) pre-Consolidation Common Shares was approved with an approximate 99.91% of votes cast in favour. Prior to the Consolidation, a total of 324,346,871 common shares were issued and outstanding, and after the Consolidation the Corporation has 64,869,417 issued and outstanding common shares. Following Shareholder approval, the Corporation filed articles of amendment implementing the Consolidation. The post-Consolidation Common Shares will continue to be listed on the Toronto Stock Exchange (TSX) under the trading symbol "HNL.TO" and commenced trading on a post-Consolidation basis on July 16, 2020. Horizon North had 64,869,417 voting common shares issued and outstanding as at August 11, 2020.

Off-Balance Sheet Financing

Horizon North has no off-balance sheet financing.

Management's Report on Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure Controls and Procedures

June 30, 2020 is the Corporation's first financial period following the completion of its reverse takeover by Dexterra (also known under IFRS as a 'reverse acquisition') and Dexterra was not a reporting issuer immediately before the reverse takeover.

Accordingly, the Corporation will file the alternative Form 52-109F1 – IPO/RTO for the quarter ended June 30, 2020 on SEDAR. Form 52-109F1 – IPO/RTO does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109 for the acquired operations.

In particular, the co-Chief Executive Officers and the Chief Financial Officer (the Corporation's "Certifying Officers"), did not make any representations relating to the establishment and maintenance of controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Corporation in its annual filings and other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. However, the Certifying Officers did ensure that processes were in place to provide them with sufficient knowledge to support the representations they made in the certificates.

It should be noted that inherent limitations on the ability of the Certifying Officers to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 in the first financial period following the completion of the reverse takeover, since the Corporation was not a reporting issuer immediately before the reverse takeover, may result in additional risks to the quality, reliability, transparency and timeliness of the annual filings and other reports provided under securities legislation.

Limitations on the Effectiveness of Disclosure Controls and Procedures and Internal Control over Financial Reporting

Because of their inherent limitations, DC&P and ICFR may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or implemented, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met.

Risks and Uncertainties

The financial risks, critical accounting estimates and judgements, and risk factors related to Horizon North and its business, which should be carefully considered, are disclosed in the "Risk Factors of Dexterra" section included in "Appendix F – Information Concerning 10647802 Canada Limited" in the management information circular of Horizon North dated April 23, 2020 and Horizon North's Q2 2020 financial statements and this MD&A should be read in conjunction with them. Such risks may not be the only risks facing Horizon North. Additional risks not currently known may also impair Horizon North's business operations and results of operation.

Critical Accounting Estimates and Judgements

This MD&A of Horizon North's financial condition and results of operations is based on its consolidated financial statements, which are prepared in accordance with IFRS. The preparation of the consolidated financial statements requires management to make estimates and judgements about the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The MD&A should be read in conjunction with the Q2 2020 financial statements and the changes to the areas of estimation and judgement are disclosed in Note 21 "Critical Accounting Estimates and Judgements".

Financial Instruments and Risk Management

In the normal course of business, the Corporation is exposed to a number of financial risks that can affect its operating performance. These risks are: credit risk, liquidity risk and interest rate risk. The Corporation's overall risk management program and prudent business practices seek to minimize any potential adverse effects on the Corporation's financial performance. The MD&A should be read in conjunction with the Q2 2020 financial statements and the changes in the risk management or in any risk management policies as disclosed in Note 22 "Financial risk management".

Forward-Looking Information

Certain statements contained in this MD&A may constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to Horizon North's future outlook and anticipated events, business, operations, financial performance, financial condition or results and, in some cases, can be identified by terminology such as "continue"; "forecast"; "may"; "will"; "project"; "could"; "should"; "expect"; "plan"; "anticipate"; "believe"; "outlook"; "target"; "intend"; "estimate"; "predict"; "might"; "potential"; "continue"; "foresee"; "ensure" or other similar expressions concerning matters that are not historical facts. In particular, statements regarding Horizon North's future operating results and economic performance and its objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions, including expected growth, results of operations, performance and business prospects and opportunities regarding Horizon North, which Horizon North believes are reasonable as of the current date. While management considers these assumptions to be reasonable based on information currently available to Horizon North, they may prove to be incorrect. Forward-looking information is also subject to certain factors that could cause actual results to differ materially from what Horizon North currently expects.

The reader should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While management may elect to, Horizon North is under no obligation and does not undertake to update or alter this information at any time, except as may be required by law.

Condensed consolidated statement of financial position (Unaudited)

(000's)	Note	June 30, 2020	December 31, 2019
Assets			
Current assets			
Cash		$ —	$ 2,577
Trade and other receivables		143,391	35,432
Inventories	5	23,216	4,451
Prepaid expenses and other		7,197	1,781
Income tax receivable		—	965
Total current assets		173,804	45,206
Non-current assets			
Property, plant and equipment	6	194,328	8,254
Right-of-use assets	7	22,077	1,672
Intangible assets	8	23,844	21,058
Goodwill		98,640	98,640
Deferred tax asset		6,443	—
Other assets	9	11,166	—
Total non-current assets		356,498	129,624
Total assets		$ 530,302	$ 174,830
Liabilities			
Current liabilities			
Loans and borrowings	10	$ —	5,453
Trade and other payables		67,901	16,229
Deferred revenue		2,588	2,867
Income taxes payable		2,883	—
Asset retirement obligations	11	5,395	—
Lease liabilities	7	7,000	614
Contingent consideration		400	400
Total current liabilities		86,167	25,563
Long-term liabilities			
Lease liabilities	7	18,669	1,061
Contingent consideration		1,439	1,439
Asset retirement obligations	11	5,712	—
Loans and borrowings	10	123,988	—
Deferred income taxes		—	1,644
Total long-term liabilities		149,808	4,144
Total liabilities		$ 235,975	$ 29,707
Shareholders' Equity			
Share capital	12	232,348	131,543
Contributed surplus		49	—
Accumulated other comprehensive income		2	—
Retained earnings		60,154	12,150
Non-controlling interest		1,774	1,430
Total shareholders' equity		294,327	145,123
Total liabilities and shareholders' equity		$ 530,302	$ 174,830

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

Condensed consolidated statement of comprehensive income (Unaudited)
Three and six months ended June 30, 2020 and 2019

HORIZON NORTH

(000's except per share amounts)	Note	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Revenue		$ 76,106	$ 66,493	$ 136,479	$ 120,774
Operating expenses					
Direct costs	13	49,121	57,805	103,430	108,099
Selling, general and administrative expenses	14	4,133	2,524	8,049	4,635
Depreciation	6,7	3,135	663	3,893	1,330
Amortization of intangible assets	8	736	340	1,249	695
Share based compensation	12	49	—	49	—
Loss (gain) on disposal of property, plant and equipment		39	(45)	(504)	(45)
Operating income		18,893	5,206	20,313	6,060
Finance costs		924	45	1,043	69
Bargain purchase gain	4	(34,128)	—	(34,128)	—
Earnings before income taxes		52,097	5,161	53,398	5,991
Income tax					
Income tax expense	15	4,666	1,350	5,007	1,568
Net earnings		47,431	3,811	48,391	4,423
Other comprehensive income					
Translation of foreign operations		2	—	2	—
Total comprehensive income for the period		$ 47,433	$ 3,811	$ 48,393	$ 4,423
Net Earnings Attributable to:					
Shareholders		47,139	3,566	48,004	4,318
Non-controlling interest		292	245	387	105
Net earnings per share, basic and diluted	17	$ 0.22	$ 0.02	$ 0.26	$ 0.03

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

HORIZON NORTH

Condensed consolidated statement of changes in equity (Unaudited)

(000's)	Note	Share Capital - Number of Shares	Share Capital	Contributed Surplus	Non-Controlling Interest	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance as at December 31, 2018		137,624	$ 113,908	$ —	$ 1,258	$ —	$ 6,132	$ 121,298
Issuance of common shares		21,306	17,635	—	—	—	—	17,635
Net income		—	—	—	105	—	4,318	4,423
Balance as at June 30, 2019		158,930	$ 131,543	$ —	$ 1,363	$ —	$ 10,450	$ 143,356
Balance as at December 31, 2019		158,930	$ 131,543	$ —	$ 1,430	$ —	$12,150	$145,123
Effect of reverse acquisition of Horizon North	4	165,417	100,904	—	—	—	—	100,904
Dividends		—	—	—	(43)	—	—	(43)
Share issue costs	4	—	(99)	—	—	—	—	(99)
Share based compensation	12	—	—	49	—	—	—	49
Translation of foreign operations		—	—	—	—	2	—	2
Net income		—	—	—	387	—	48,004	48,391
Balance as at June 30, 2020		324,347	$ 232,348	$ 49	$ 1,774	$ 2	$ 60,154	$ 294,327

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

Condensed consolidated statement of cash flows (Unaudited)
Three and six months ended June 30, 2020 and 2019

HORIZON NORTH

		Three Months Ended		Six Months Ended	
(000's)	Note	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Cash provided by (used in):					
Operating activities:					
Net earnings		$ 47,431	$ 3,811	$ 48,391	$ 4,423
Adjustments for:					
Depreciation	6,7	3,135	663	3,893	1,330
Amortization of intangible assets	8	736	340	1,249	695
Share based compensation	12	49	—	49	—
Loss (gain) on disposal of property, plant and equipment		39	(45)	(504)	(45)
Bargain purchase gain	4	(34,128)	—	(34,128)	—
Book value of used fleet sales		98	—	98	—
Loss on equity investments		65	—	65	—
Asset retirement obligation settled		(264)	—	(264)	—
Finance costs		924	45	1,043	69
Income tax expense	15	4,666	1,350	5,007	1,568
Changes in non-cash working capital	16	(15,013)	(8,696)	(11,504)	(4,596)
Income taxes paid (received)		14	(3,950)	(556)	(3,950)
Net cash flows from (used in) operating activities		7,752	(6,482)	12,839	(506)
Investing activities:					
Acquisition of business from Carillion Canada		—	(7,413)	—	(7,413)
Purchase of property, plant and equipment		(596)	(788)	(1,183)	(1,840)
Purchase of intangible assets		(133)	(10)	(234)	(120)
Changes in non-cash working capital	16	5,743	—	5,743	—
Equity investment		(817)	—	(817)	—
Proceeds on sale of property, plant and equipment		2,113	45	2,684	45
Deferred payment to former shareholder		—	—	—	(17,635)
Net cash flows used in investing activities		6,310	(8,166)	6,193	(26,963)
Financing activities:					
Issuance of common shares		—	—	—	17,635
Payments for lease liabilities		(739)	(115)	(869)	(217)
Proceeds from loans and borrowings (payments on)		(41,257)	—	(19,185)	—
Finance costs paid		(1,390)	(45)	(1,512)	(69)
Dividends paid to non-controlling interest		—	—	(43)	—
Net cash flows used in financing activities		(43,386)	(160)	(21,609)	17,349
Change in cash position		(29,324)	(14,808)	(2,577)	(10,120)
Cash, beginning of period		29,324	20,947	2,577	16,260
Cash, end of period		$ —	$ 6,139	$ —	$ 6,139

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

1. Reporting Entity

Horizon North is a publicly listed corporation (TSX: HNL.TO) operating a pan-Canadian support services platform across eleven provinces and territories and diversified end markets. Our Modular Solutions business integrates modern design concepts with off-site manufacturing processes to produce high-quality building solutions for rapid affordable housing, commercial, residential and industrial clients. Our Facilities Management business delivers operation and maintenance solutions for built assets and infrastructure in the public and private sectors, including aviation, defence and security, retail, healthcare, education and government. Our Workforce Accommodations, Forestry and Energy Services business provides a full range of workforce accommodations solutions, forestry services and access solutions to clients in the energy, mining, forestry and construction sectors among others. Horizon North has an outstanding record of creating and managing places that play a vital role in the national economy and our local communities. What sets us apart is our expertise in bringing together the right people with the right skills to transform service delivery and improve customers' experiences.

On May 29, 2020, Horizon North Logistics Inc. ("Horizon North") (TSX: HNL.TO) entered into a transaction (the "Transaction") with 10647802 Canada Limited, operating as Dexterra Integrated Facilities Management ("Dexterra"), a subsidiary of Fairfax Financial Holdings Limited (TSX: FFH and FFH.U) ("Fairfax Financial"). Pursuant to the Transaction, Horizon North acquired all of the outstanding common shares of Dexterra and in exchange issued 158,929,967 common shares of Horizon North ("Common Shares") to Dexterra's sole shareholder, 9477179 Canada Inc. ("Dexterra Parent"), a wholly-owned subsidiary of Fairfax Financial. Accordingly, Fairfax Financial controls a 49% interest in the newly combined Corporation, while existing Horizon North shareholders maintain a 51% interest. Prior to the Transaction, Fairfax Financial had no ownership interest in Horizon North.

For accounting purposes, the Transaction constituted a reverse acquisition that involved a change of control of Horizon North and a business combination of Horizon North and Dexterra, to form a new corporation that now carries on operations as Horizon North Logistics Inc. (the "Corporation"). Based on the guidance in IFRS 3, Business Combinations, it was determined that Horizon North was the accounting acquiree and Dexterra was the accounting acquirer, as Fairfax Financial, the sole shareholder of Dexterra, now controls Horizon North. As a result, 2019 comparative information included herein is solely Dexterra. Horizon North financial results are included subsequent to the Transaction closing date. Refer to Note 4 for further information.

2. Statement of Compliance

These financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Corporation adopted in its consolidated financial statements for the year ended December 31, 2019, other than as described in Note 3. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. These financial statements were approved by the board of directors of Horizon North on August 11, 2020.

3. Basis of Preparation

The basis of preparation, and accounting policies and methods of their application in these condensed interim consolidated financial statements, including comparatives, are consistent with those used in Dexterra's audited annual consolidated financial statements for the year ended December 31, 2019, except as disclosed in the Changes in accounting policies section below, and should be read in conjunction with those annual consolidated financial statements. The Corporation's functional currency, and the preparation currency of the condensed interim consolidated financial statements, is the Canadian dollar.

Certain prior period balances have been reclassified to conform to the current period presentation.

Changes in accounting policies

Effective January 1, 2020, the Corporation changed its accounting policy of presenting expenses recognized in the condensed consolidated statement of comprehensive income by nature in accordance with IAS 1 - Presentation of financial statements. The Corporation believes presenting an analysis of expenses recognized in the condensed consolidated statement of comprehensive income by function provides more reliable and relevant financial information to users of its financial statements. Under the new accounting policy, presentation of additional information on the nature of expenses will be included in the notes to the financial statements.

As a result of the business combination between Dexterra and Horizon North, additional and amended accounting policies have been presented below that are applicable to the Corporation following the reverse acquisition discussed in Note 1 and Note 4.

a Joint ventures

The Corporation's joint ventures are those entities over whose activities the Corporation has joint control, established by contractual agreement. Joint ventures are accounted for using the equity method (equity accounted investees) and are initially recognized at cost.

b. Special purpose entities

The Corporation has established a number of special purpose entities ("SPE") for operating purposes. An SPE is consolidated when, based on an evaluation of the substance of its relationship with the Corporation and the SPE's risks and rewards, the Corporation concludes that it controls the SPE. SPEs controlled by the Corporation were established under terms that impose strict limitations on the decision-making powers of the SPE's management and that result in the Corporation receiving the majority of the benefits related to the SPE's operations and net assets, being exposed to the majority of risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPEs or their assets.

c. Employee benefits

i. Defined contribution plan

The Corporation's defined contribution plan is a post-employment benefit plan under which the Corporation pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit or loss when they are due.

ii. Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under the short-term cash bonus plans if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

iii. Share based compensation transactions

Equity-settled transactions

The grant date fair value of share-based compensation awards granted to officers and employees is recognized as an expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards (vesting period). The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

d. Revenue

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Corporation recognizes revenue when it transfers control of the product or service to a customer, which is generally when title passes from the Corporation to its customer or when the customer receives the benefits from the service.

The Corporation recognizes revenue from the following major products and services:

i. Construction contract revenue

Construction contract revenue includes the initial amount agreed to in the contract plus any variations in contract work, claims, and incentive payments, to the extent that it is highly probable that a significant revenue reversal will not occur. The Corporation recognizes revenue over time for its construction contracts, and estimates progress of these contracts by comparing costs incurred to the total expected costs of the project. Contract expenses are recognized as incurred unless they create an asset related to future contract activity. An expected loss on a contract is recognized immediately in profit or loss.

ii. Rendering of energy services

The Corporation provides access mat rental, relocatable structure rental, and transportation services to customers. Revenue from rendering of these services are recognized over time. Rental days are used to measure the rental fleet revenue. Revenue is recognized at the applicable day rate for each asset rented, based on rates specified in each contract, and as the services are performed.

iii. Sale of used fleet

The Corporation routinely sells items of property, plant and equipment that it has held for rental and such assets are transferred to inventories at their carrying amount when they cease to be held for rent. The proceeds from the sale of such assets are recognized as revenue at a point in time when control of the assets transfers.

iv. Sale of other goods

Revenue from the sale of other goods is measured at the fair value of the consideration received or receivable. The Corporation recognizes revenue when it transfers control of the product or service to a customer, which is generally when title passes from the Corporation to its customer, collectability is reasonably assured, the associated costs can be estimated reliably, and there is no continuing management involvement with the goods. The Corporation recognizes revenue from the sale of other goods at a point in time.

e. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, have been identified as the co-Chief Executive Officers. The Corporation has three reportable segments, which are Workforce Accommodations, Forestry and Energy Services ("WAFES"), Facilities Management and Modular Solutions. Horizon North's Facilities Management segment provides solutions for ongoing maintenance and operations of high-quality infrastructure. WAFES provides turnkey workforce solutions including project management, structure supply, installation, catering operations, tree planting, vegetation management, type-2 firefighting services and various energy services such as access matting and relocatable rentals. The Modular Solutions business integrates modern design concepts and technology with state of the art, off-site manufacturing processes; producing high quality building solutions for rapid affordable housing, commercial, industrial and residential offerings including offices, hotels, and retail buildings, as well as distinctive single detached dwellings and multi-family residential structures.

4. Business Combination

On May 29, 2020, Horizon North acquired 100% of the issued and outstanding shares of Dexterra through issuing 158,929,967 shares of Horizon North to Dexterra Parent, as described in Note 1. Management performed an analysis under *IFRS 3 – Business Combinations* ("IFRS 3") and has determined that Dexterra is the accounting acquirer of Horizon North. As such, the Transaction constitutes a Reverse Take Over for accounting purposes. Therefore, Dexterra is deemed to be the continuing enterprise for accounting purposes and accordingly its assets and liabilities are included in these consolidated financial statements at historical cost. Horizon North, being the acquired enterprise for accounting purposes has its assets and liabilities included in these financial statements at their fair value on the date of the transaction in accordance with IFRS 3.

The acquisition is being accounted for using the acquisition method whereby the assets and liabilities of the acquiree are recorded at their fair values, with the deficit of the aggregate consideration relative to the fair value of the identifiable net assets recorded as a bargain purchase gain. The Corporation continues to assess the fair values of the net assets acquired based on management's best estimate of the fair value, which takes into consideration the condition of the assets acquired, current industry conditions and the discounted future cash flows expected to be received from the assets as well as the amount it is expected to cost to settle the outstanding liabilities.

Consideration:		**(000's)**
Share consideration	$	100,904
Total Consideration	$	100,904

Recognized fair value amounts of assets acquired and liabilities assumed:		**(000's)**
Trade & other receivables (net)	$	110,843
Inventories		17,850
Prepaid expenses and other		7,897
Property, plant and equipment		189,736
Right-of-use assets		21,878
Intangible assets - trade names		3,800
Deferred income tax asset		8,340
Income taxes receivable		357
Other assets(1)		10,480
Trade and other payables		(59,500)
Deferred revenue		(2,079)
Asset retirement obligations		(11,100)
Lease liabilities		(25,285)
Loans and borrowings		(138,185)
Total identifiable net assets	$	135,032
Bargain purchase gain on acquisition	$	(34,128)

(1) Other assets at May 29, 2020 includes a $8.8 million equity accounted investment in Gitxaala Horizon North Services Limited Partnership, a joint venture that is 49% owned by the Corporation. The remainder relates to the long term portion of finance lease receivable.

The allocations and determinations of the consideration described above are preliminary and subject to changes upon final adjustments.

The share consideration was determined based on the number of Horizon North common shares not acquired by Dexterra as part of the Transaction, which is the amount of 165,416,904 common shares at $0.61 per common share. The amount per share was based on Horizon North's closing price quoted on the TSX on May 29, 2020, the date of the closing of the Transaction. A bargain purchase gain was recorded with this business combination as the share consideration is based upon a lower share price at closing compared to the price contemplated at the time the deal was negotiated.

From the date of acquisition to June 30, 2020, the former Horizon North operations contributed $26.3 million of revenue and $3.5 million of income before tax to the Corporation. If the business combination had been completed on January 1, 2020, the revenue and income before income tax for the six-month period ending June 30, 2020 for the combined entity, adjusting for Horizon North's Q1 2020 impairment loss and the lower depreciation expense from the assets being recorded at fair value, would have been $299.3 million and $39.1 million, respectively, which includes the $34.1 million Bargain purchase gain and $4.6 million in transaction costs.

Dexterra incurred costs related to the acquisition of Horizon North of $1.6 million relating to share issuance, legal, due diligence and external advisory fees. The cost related to the share issuance totaling $0.1 million were included in share capital on the balance sheet. The costs related to the due diligence and external advisory fees totaling $1.5 million were included in selling, general & administrative expenses on the consolidated statement of comprehensive income.

5. Inventories

(000's)	June 30, 2020	December 31, 2019
Raw materials	$ 5,094	$ —
Work-in-progress	5,299	—
Finished goods	12,823	4,451
Inventories	$ 23,216	$ 4,451

The work-in-progress inventory relates to the construction of a hotel, which has been paused until a later date. Management's intention is to sell the hotel upon completion.

6. Property, Plant and Equipment

Carrying Amounts (000's)	Camp equipment & mats	Land & buildings	Automotive & trucking equipment	Furniture, fixtures & other equipment	Total
Cost					
December 31, 2019	$ 5,097	$ 1,526	$ 521	$ 4,369	$ 11,513
Acquisition of Horizon North	141,414	26,433	18,358	2,963	189,168
Acquisition of Horizon North - Assets under construction	19	—	—	549	568
Additions and transfers	769	(316)	50	592	1,095
Assets under construction	11	—	8	—	19
Change in estimate	3	—	—	—	3
Change in discount rate	269	—	—	—	269
Disposals	(1,286)	—	(2,061)	(16)	(3,363)
June 30, 2020	$ 146,296	$ 27,643	$ 16,876	$ 8,457	$ 199,272
Accumulated Depreciation					
December 31, 2019	$ 1,527	$ 290	$ 98	$ 1,344	$ 3,259
Depreciation	1,364	145	611	760	2,880
Disposals	(1,194)	—	—	(1)	(1,195)
June 30, 2020	$ 1,697	$ 435	$ 709	$ 2,103	$ 4,944
Net book value					
June 30, 2020	$ 144,599	$ 27,208	$ 16,167	$ 6,354	$ 194,328
December 31, 2019	$ 3,570	$ 1,236	$ 423	$ 3,025	$ 8,254

7. Leases

(i) Right-of-use assets

(000's)		Camp equipment & mats		Land & buildings		Automotive & trucking equipment		Furniture, fixtures & other equipment		Total
Cost										
December 31, 2019	$	—	$	919	$	1,174	$	184	$	2,277
Acquisition of Horizon North		2,445		19,316		75		42		21,878
Additions		83		—		—		—		83
Disposals		—		(543)		—		—		(543)
June 30, 2020	$	2,528	$	19,692	$	1,249	$	226	$	23,695
Accumulated Depreciation										
December 31, 2019	$	—	$	316	$	243	$	46	$	605
Depreciation		300		535		145		33		1,013
June 30, 2020	$	300	$	851	$	388	$	79	$	1,618
Net book value										
June 30, 2020	$	2,228	$	18,841	$	861	$	147	$	22,077
December 31, 2019	$	—	$	603	$	931	$	138	$	1,672

(ii) Lease liabilities

Maturity Analysis – contractual undiscounted cash flows		(000's)
Less than one year	$	8,462
One to five years		13,719
More than five years		8,664
Total undiscounted lease payable as at June 30, 2020	$	30,845
Lease liabilities included in the statement of financial position at June 30, 2020	$	25,669
Current		7,000
Non-current		18,669

At June 30, 2020, the Corporation has not sub-leased any right-of-use assets, there were no restrictions or covenants imposed by leases that would create a material impact on the financial statements and there were no sale and leaseback transactions.

8. Intangible Assets

Intangible assets at the consolidated statement of financial position date are as follows:

(000's)		Trade Names		Customer Relationships		Computer software		Total
Cost								
As at December 31, 2019	$	—	$	22,483	$	1,125	$	23,608
Acquisition of Horizon North		3,800		—		—		3,800
Additions		—		—		235		235
June 30, 2020	$	3,800	$	22,483	$	1,360	$	27,643
Accumulated Amortization								
As at December 31, 2019	$	—	$	2,163	$	387	$	2,550
Amortization		134		916		199		1,249
June 30, 2020	$	134	$	3,079	$	586	$	3,799
Net book value								
June 30, 2020	$	3,666	$	19,404	$	774	$	23,844
December 31, 2019	$	—	$	20,320	$	738	$	21,058

9. Other Assets

Other assets at June 30, 2020 includes a $9.5 million (December 31, 2019 - $nil) equity accounted investment in Gitxaala Horizon North Services Limited Partnership. The remainder relates to long-term lease receivables, which were acquired as part of the Transaction. This investment relates to a joint venture that is 49% owned by the Corporation.

10. Loans and borrowings

(000's)		June 30, 2020		December 31, 2019
Committed credit facility	$	125,055	$	5,453
Unamortized financing costs		(1,067)		—
Total borrowings	$	123,988	$	5,453

The carrying value of Horizon North's debt approximates its fair value, as debt bears interest at variable rates which approximate market rates.

Effective June 30, 2020, Horizon North reached an agreement with its lenders to amend its Credit Facility and extend the maturity date to December 30, 2022. The Credit Facility has an available limit of $175.0 million and is secured by a $400.0 million first fixed and floating charge debenture over all assets of the Corporation and its wholly-owned subsidiaries. The interest rate for the credit facility is calculated on a grid pricing structure based on the Corporation's debt to EBITDA ratio. Amounts drawn on the credit facility incur interest at bank prime rate plus 1.00% to 2.25% or the Bankers' Acceptance rate plus 2.00% to 3.25%. The credit facility has a standby fee ranging from 0.50% to 0.8125%.

As at June 30, 2020, the Corporation was in compliance with all financial and non-financial covenants related to the credit facility and available borrowing capacity was $46.1 million.

The operating facility in place at December 31, 2019 was Dexterra's stand-alone facility prior to the Transaction. The facility was repaid in May 2020, and was cancelled on May 29, 2020 upon closing the Transaction.

11. Asset retirement obligations

Provisions include constructive site restoration obligations for camp projects to restore lands to previous condition when camp facilities are dismantled and removed.

(000's)		June 30, 2020		December 31, 2019
Balance, beginning of period	$	—	$	—
Acquisition of Horizon North		11,100		—
Discount rate change		270		—
Accretion of provisions		1		—
Asset retirement obligations settled		(264)		—
Balance, end of period	$	11,107	$	—

The estimated present value of rehabilitating the sites at the end of their useful lives has been estimated using existing technology, at inflated prices, and discounted using a risk-free rate. The future value amount at June 30, 2020 was $11.2 million (December 31, 2019 - nil) and determined using risk free interest rates of 0.33% and an inflation rate of 0.30%. The timing of these payments is dependent on various factors, such as the estimated lives of the equipment and industry activity in the region but is anticipated to occur between 2020 and 2028.

(000's)		June 30, 2020		December 31, 2019
Current	$	5,395	$	—
Non-current		5,712		—
Balance, end of year	$	11,107	$	—

12. Share Capital

(a) Authorized and issued

The Corporation is authorized to issue an unlimited number of common shares. The number of common shares and share capital as at the consolidated balance sheet date are presented in the table below:

(In 000's other than number of shares)	Total number of shares		Total share capital
Balance, December 31, 2019	158,929,967	$	131,543
Effect of reverse acquisition of Horizon North	165,416,904		100,904
Share issue costs	—		(99)
Balance, June 30, 2020	324,346,871	$	232,348

On May 29, 2020, Horizon North acquired 100% of the issued and outstanding shares of Dexterra through issuing 158,929,967 shares of Horizon North to Dexterra Parent, as described in Note 1 and Note 4. As Dexterra was determined to be the accounting acquirer, the number of common shares outstanding as at December 31, 2019 has been adjusted retrospectively to reflect the capital of Dexterra using the exchange ratio established in the acquisition agreement.

(b) Share option plan

The Corporation has a share option plan for its directors, officers, and key employees whereby options may be granted, to a maximum of 10% of the issued and outstanding common shares, subject to terms and conditions. Share option vesting privileges are at the discretion of the Board of Directors and were set at three years. The Corporation uses graded vesting for share options over the period in which the option vests. All share options are equity settled with a weighted average remaining contractual life of 4.9 years and all options granted have a maximum term of 5 years.

	Six months ended June 30, 2020		
	Outstanding options		Weighted average exercise price
Balance, beginning of period	—	$	—
Granted	4,900,000		0.61
Balance, end of period	4,900,000	$	0.61

The exercise prices for options outstanding and exercisable at June 30, 2020 are as follows:

	Total options outstanding				Exercisable options		
Exercise price per share	Number		Weighted average exercise price per share	Weighted average remaining contractual life in years	Number		Weighted average exercise price per share
$0.61	4,900,000	$	0.61	4.9	—	$	—

The Corporation calculated the fair value of the share options granted using the Black-Scholes pricing model to estimate the fair value of the share options issued at the date of grant. The weighted average fair value of all options granted during the period and the assumptions used in their determination are as follows:

		June 30, 2020
Fair value per option	$	0.24
Forfeiture rate		9.95 %
Grant price	$	0.61
Expected life		3.0 years
Risk free interest rate		0.30 %
Dividend yield rate		— %
Volatility		62.71 %

Expected volatility is estimated by considering historic average share price volatility. For the three and six months ended June 30, 2020, share based compensation for share options included in net earnings amounted to $0.05 million (2019 - nil).

13. Direct Costs

	Three months ended June 30,		Six months ended June 30,	
(000's)	2020	2019	2020	2019
Wages and benefits	$ 17,984	$ 39,496	$ 52,906	$ 72,069
Subcontracting	9,468	5,146	18,627	10,975
Product cost	7,170	8,498	12,743	14,416
Equipment and repairs	1,839	1,266	2,639	2,325
Vehicles	937	673	1,545	1,237
Cost of goods manufactured	6,189	—	6,189	—
Occupancy costs	871	—	1,000	—
Loss from equity investment	65	—	65	—
Other operating expense	4,598	2,726	7,716	7,077
	$ 49,121	$ 57,805	$ 103,430	$ 108,099

Included in wages and benefits is the impact of the Canada Emergency Wage Subsidy, which reduced salaries by $17.6 million and $17.6 million for the three and six months ended June 30, 2020, respectively.

14. Selling, General and Administrative Expenses

	Three months ended June 30,		Six months ended June 30,	
(000's)	2020	2019	2020	2019
Wages and benefits	$ 1,341	$ 1,107	$ 2,154	$ 1,871
Other selling and administrative expenses	2,792	1,417	5,895	2,764
	$ 4,133	$ 2,524	$ 8,049	$ 4,635

Included in wages and benefits is the impact of the Canada Emergency Wage Subsidy, which reduced salaries by $0.8 million and $0.8 million for the three and six months ended June 30, 2020, respectively.

15. Income Taxes

For the three and six months ended June 30, 2020, the Corporation's effective income tax rate decreased from the expected statutory rate to 9.0% and 9.4%, respectively, primarily due to the Acquisition of Horizon North and related non-taxable bargain purchase gain.

For the three and six months ended June 30, 2019, the Corporation's effective income tax rate of 26.2% was relatively consistent with the statutory rate.

The Corporation has non-capital losses for Canadian tax purposes of $73.3 million available to reduce future taxable income in Canada, and non-capital losses for United States tax purposes of $0.8 million available to reduce future taxable income in the United States, which will expire after 2022.

Deferred tax assets of $2.2 million have not been recognized in respect of certain tax losses. Tax losses not recognized expire in 2027 and beyond and amount to $7.1 million. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the subsidiary of the Corporation can utilize the benefits.

(000's)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Earnings before tax	$ 52,097	$ 5,161	$ 53,398	$ 5,991
Combined federal and provincial income tax rate	26.40 %	26.51 %	26.40 %	26.51 %
Expected income tax	13,754	1,368	14,097	1,588
Non-deductible share based compensation	12	—	12	—
Changes in tax rates	17	—	17	—
Revisions to prior year tax estimates	82	—	82	—
Deferred taxes not recognized	(294)	—	(294)	—
Non-taxable bargain purchase gain	(9,044)	—	(9,044)	—
Non-taxable portion of capital loss (gain)	38	—	32	—
Non-deductible and other	101	(18)	105	(20)
	$ 4,666	$ 1,350	$ 5,007	$ 1,568
Income tax expense :				
Current	$ 4,604	$ 859	$ 4,822	$ 997
Deferred	62	491	185	571

16. Cash Flow Information

The details of the changes in non-cash working capital are as follows:

(000's)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Trade and other receivables	2,543	(15,121)	2,682	(7,253)
Inventories	(910)	117	(915)	395
Prepaid expenses and other	3,561	(509)	2,547	(1,783)
Trade and other payables	(19,067)	6,691	(13,661)	4,174
Deferred revenue	(1,140)	126	(2,157)	(129)
	(15,013)	(8,696)	(11,504)	(4,596)

Changes in non-cash investing assets and liabilities are as follows:

(000's)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Accounts payable and accrued liabilities	5,743	—	5,743	—
	5,743	—	5,743	—

17. Net Earnings per Share

A summary of the common shares used in calculating earnings per share is as follows:

	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Number of common shares, beginning of period	158,929,967	158,929,967	158,929,967	137,623,822
Common shares issued	—	—	—	21,070,718
Effect of reverse Acquisition of Horizon North	58,814,899	—	29,084,291	—
Weighted average common shares outstanding - basic	217,744,866	158,929,967	188,014,258	158,694,540
Effect of share purchase options[1]	—	—	—	—
Weighted average common shares outstanding - diluted	217,744,866	158,929,967	188,014,258	158,694,540

(1) The Corporation utilizes the treasury stock method for calculating the dilutive effect of share purchase options when the average market price of the Corporation's common stock during the period exceeds the exercise price of the option

18. Reportable Segment Information

The Corporation operates in Canada through three operating segments: Facilities Management, WAFES and Modular Solutions.

The WAFES segment combines the workforce accommodations operations, forestry and associated services as well as energy services such as access matting and relocatable rentals. The Modular Solutions segment is comprised of all modular manufacturing and installation operations for rapid affordable housing, commercial and residential end markets. The Facilities Management business delivers operation and maintenance solutions for built assets and infrastructure in the public and private sectors, including aviation, defence and security, retail, healthcare, education and government. Corporate includes the costs of head office administration, interest costs, taxes, other corporate costs and residual assets and liabilities.

Information regarding the results of all segments is included below. Inter-segment pricing is determined on an arm's length basis.

Three months ended June 30, 2020 *(000's)*	Facilities Management	WAFES	Modular Solutions	Corporate	Inter-segment Eliminations	Total
Revenue	$ 29,594	$ 36,340	$ 11,044	$ —	$ (872)	$ 76,106
Operating expenses						
Direct costs	18,259	23,310	8,280	65	(793)	49,121
Selling, general and administrative expenses	847	1,049	430	1,806	—	4,133
Depreciation and amortization	753	2,471	428	219	—	3,871
Share based compensation	2	7	4	36	—	49
(Gain) loss on disposal of property, plant and equipment	—	(1)	40	—	—	39
Operating income (loss)	9,733	9,504	1,862	(2,126)	(79)	18,893
Bargain purchase gain	—	—	—	(34,128)	—	(34,128)
Finance costs	—	34	70	820	—	924
Earnings (loss) before income taxes	$ 9,733	$ 9,470	$ 1,792	$ 31,182	$ (79)	$ 52,097
Total assets	$ 178,598	$ 251,844	$ 90,722	$ 10,169	$ (1,031)	$ 530,302

Three months ended June 30, 2019 *(000's)*	Facilities Management	WAFES	Modular Solutions	Corporate	Inter-segment Eliminations	Total
Revenue	$ 38,754	$ 27,739	$ —	$ —	$ —	$ 66,493
Operating expenses						
Direct costs	36,193	21,612	—	—	—	57,805
Selling, general and administrative expenses	812	370	—	1,342	—	2,524
Depreciation and amortization	652	288	—	63	—	1,003
(Gain) loss on disposal of property, plant and equipment	—	(45)	—	—	—	(45)
Operating Income (loss)	1,097	5,514	—	(1,405)	—	5,206
Finance costs	—	—	—	45	—	45
Earnings (loss) before income taxes	$ 1,097	$ 5,514	$ —	$ (1,450)	$ —	$ 5,161
Total assets	$ 107,021	$ 66,228	$ —	$ 1,581	$ —	$ 174,830

Six months ended June 30, 2020 (*000's*)	Facilities Management	WAFES	Modular Solutions	Corporate	Inter-segment Eliminations	Total
Revenue	$ 73,011	$ 53,296	$ 11,044	$ —	$ (872)	$ 136,479
Operating expenses						
Direct costs	57,961	37,918	8,280	65	(794)	103,430
Selling, general and administrative expenses	1,912	1,024	430	4,683	—	8,049
Depreciation and amortization	1,575	2,806	428	333	—	5,142
Share based compensation	2	7	4	36	—	49
(Gain) loss on disposal of property, plant and equipment	(4)	(540)	40	—	—	(504)
Operating income (loss)	11,565	12,081	1,862	(5,117)	(78)	20,313
Bargain purchase gain	—	—	—	(34,128)	—	(34,128)
Finance costs	—	34	70	939	—	1,043
Earnings (loss) before income taxes	$ 11,565	$ 12,047	$ 1,792	$ 28,072	$ (78)	$ 53,398
Total assets	$ 178,598	$ 251,844	$ 90,722	$ 10,169	$ (1,031)	$ 530,302

Six months ended June 30, 2019 (*000's*)	Facilities Management	WAFES	Modular Solutions	Corporate	Inter-segment Eliminations	Total
Revenue	$ 77,855	$ 42,919	$ —	—	$ —	$ 120,774
Operating expenses						
Direct costs	72,783	35,316	—	—	—	108,099
Selling, general and administrative expenses	1,599	772	—	2,264	—	4,635
Depreciation and amortization	1,285	614	—	126	—	2,025
(Gain) loss on disposal of property, plant and equipment	—	(45)	—	—	—	(45)
Operating income (loss)	2,188	6,262	—	(2,390)	—	6,060
Finance costs	—	—	—	69	—	69
Earnings (loss) before income taxes	$ 2,188	$ 6,262	$ —	$ (2,459)	$ —	$ 5,991
Total assets	$ 107,021	$ 66,228	$ —	$ 1,581	$ —	$ 174,830

19. Seasonality

Some of Horizon North's segments are affected by seasonality. Forestry services, which is part of the WAFES segment, includes tree planting, forest clearing and thinning, as well as Type-2 firefighting services to public and private sector customers in Quebec, Ontario, Saskatchewan and Alberta. This seasonal forestry work takes place primarily in the spring and summer months. In addition, a portion of WAFES revenue is associated with the fluctuations in the western Canadian oil and natural gas drilling industry, which is generally slowest in the second quarter. The Facilities management segment revenue includes project work that may not be evenly distributed throughout the fiscal year. The Modular Solutions segment is not impacted by seasonality other than the manufacturing of classrooms, where the April to September period is the busiest.

20. Subsequent Event

During the Annual and Special Meeting of Shareholders held on July 10, 2020, a special resolution (the "Share Consolidation Resolution") authorizing the consolidation (the "Consolidation") of the Corporation's issued and outstanding common shares ("Common Shares") on the basis of one (1) new post-Consolidation Common Share for every five (5) pre-Consolidation Common Shares was approved with an approximate 99.91% of votes cast in favour. Prior to the Consolidation, a total of 324,346,871 common shares were issued and outstanding, and after the Consolidation the Corporation has 64,869,417 issued and outstanding common shares. Following Shareholder approval, the Corporation filed articles of amendment implementing the Consolidation. The post-Consolidation Common Shares will continue to be listed on the Toronto Stock Exchange (TSX) under the trading symbol "HNL.TO" and commenced trading on a post-Consolidation basis on July 16, 2020.

Subsequent to the quarter ended June 30, 2020, Horizon North was awarded damages payable by two former customers through legal proceedings in the amount of $7.6 million plus interest and legal costs, of which $6.9 million was received in August.

21. Critical Accounting Estimates and Judgements

The preparation of condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates and judgments about the future. These estimates and judgements are disclosed in Note 3 of Dexterra's audited annual consolidated financial statements for the year ended December 31, 2019. There have been no significant changes to the areas of estimation and judgement during the six months ended June 30, 2020, except for the items discussed below.

Estimates

During the second quarter of 2020 the Corporation updated its impairment assessments on its goodwill and customer relationships for estimation uncertainty in determining discounted cash flows and the underlying assumptions about discount rates, working capital requirements and other inputs, due to the unpredictable duration and impacts of the COVID-19 pandemic. The Corporation has assumed that the economic impacts of COVID-19 will remain for the duration of government mandated restrictions by jurisdiction as currently known, with gradual lifting of those restrictions.

The uncertainty in those assumptions have been incorporated into the Corporation's discounted cash flows used to determine recoverable amounts primarily through the adjustment of short term cash flows and higher discount rates, as applicable. The Corporation concluded there was no impairment of its goodwill or customer relationships intangible assets at June 30, 2020.

Additional significant estimates and judgments as a result of the Acquisition of Horizon North are as follows:

- Construction Receivable Estimate - The Corporation recognizes that the value of many construction contracts increases over the duration of the construction period. Change orders may be issued by customers to modify the original contract scope of work or conditions resulting in possible disputes or claims regarding additional amounts owing may arise. Construction work related to a change order or claim may proceed, and costs may be incurred, in advance of final determination of the value of the change order. As many change orders and claims may not be settled until the end of the construction project, management estimates what changes orders to include in the determination of revenue recognized and changes in these estimates could result in significant increases or decreases in revenue and income during any particular accounting period.

- Asset Retirement Obligation ("ARO") - The Corporation recognizes an asset retirement obligation to account for future demobilisation and reclamation of specific camps. Use of an ARO requires estimates of the asset retirement costs, timing of payments, present value discount rate and inflation rate to determine the amount recognized.
- Inventory - The Corporation has recognized the expenditures related to construction of a hotel as work-in-progress inventory, as it is management's intention to sell the hotel. The classification to inventory rather than investment property or property, plant and equipment represents a significant estimate as there is currently no purchase and sale agreement for the hotel.
- Share-based compensation transactions - The fair value of the employee share options is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, the exercise price of the instrument, the expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the weighted average expected life of the instruments (based on historical experience and general option holder behavior), the expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions are not taken into account in determining fair value.

22. Financial risk management

In the normal course of business, the Corporation is exposed to a number of financial risks that can affect its operating performance. These risks are: credit risk, liquidity risk and interest rate risk. The Corporation's overall risk management program and prudent business practices seek to minimize any potential adverse effects on the Corporation's financial performance. The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements. They should be read in conjunction with the annual consolidated financial statements as at December 31, 2019. There have been no changes in the risk management or in any risk management policies since year end, except as discussed below:

COVID-19 Pandemic

The rapid spread of the COVID-19 virus, which was declared by the World Health Organization to be a pandemic on March 11, 2020, and actions taken globally in response to COVID-19, have significantly disrupted business activities throughout the world. The Corporation's business relies, to a certain extent, on free movement of goods, services, and capital within Canada, which has been significantly restricted as a result of the COVID-19 pandemic. Given the ongoing and dynamic nature of the circumstances surrounding COVID-19, it is difficult to predict how significant the impact of COVID-19, including any responses to it, will be on the economy and the Corporation's business in particular, or for how long any disruptions are likely to continue. The extent of such impact will depend on future developments, which are highly uncertain, rapidly evolving and difficult to predict, including additional actions which may be taken to contain COVID-19, as well as the timing of the re-opening of the economy in Canada. Such further developments could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

With the overall slowdown in the economy as a result of the COVID-19 pandemic, the Corporation's facilities management segment has experienced significant reductions in revenue as a result of reduced services, mainly in the Aviation and Retail markets. The WAFES and Modular Solutions segments have seen less significant declines in revenue but have still been impacted due to lower activity in camp/catering services and the deferral of rapid affordable housing projects and timing of portable classroom builds. To mitigate the impact of COVID-19 and to align the expenditures with the reduction in revenues and demand, Horizon North has made reductions of approximately 40% in the combined workforce, and reductions in other variable costs, to match this decline in revenue and mitigate its impact on earnings while continuing to provide essential services to its clients. New business opportunities in the pipeline have also been affected and are expected to shift from the third quarter of 2020 to the future periods especially in the private sector. The public sector is attempting to meet the existing timelines where practical in awarding new contracts. Horizon North has been experiencing an increased demand for disinfection services and increased cleaning services from certain clients. The Corporation has also seen clients in certain regions either temporarily closing facilities or operating at lower occupancy rates as social distancing policies are installed.

The management team has implemented plans to modify the cost structure of the business, including reducing its workforce and other costs to mitigate the impact of COVID-19 while continuing to provide essential services to its clients. Additionally, the Corporation has applied for government support programs and qualified for $18.4 million of Canada Emergency Wage Subsidy ("CEWS") funding in the second quarter of 2020 which helped offset the negative earnings impact of COVID-19 during the second quarter of 2020. Further, the Corporation deferred any further spending on the Fairfield by Marriott hotel in Kitimat, British Columbia while actively searching for a buyer, lowered planned capital spending to align with the capital light strategy of the new combined entity, and are actively looking to dispose of idle or under utilized assets across its operating segments.

The Corporation continues to monitor the recoverability of trade receivables and the impact of current and expected future credit losses are reflected in the expected credit loss provisions. There was no significant impact to expected future credit losses due to COVID-19 at June 30, 2020. Further developments related to the economy in Canada, which were unforeseen as at June

30, 2020 could have an adverse effect on the recoverability of trade receivables. The ultimate impact of COVID-19 on the Corporation may not be fully known for an extended period of time.

Credit Risk

The following shows the aged balances of trade and other receivables:

(000's)	June 30, 2020	December 31, 2019
Trade receivables		
Neither impaired nor past due	$ 37,461	$ 14,098
Outstanding 31-60 days	8,521	8,649
Outstanding 61-90 days	1,028	2,214
Outstanding more than 90 days	4,472	1,611
Total trade receivables	51,482	26,572
Construction receivables		
Neither impaired nor past due	3,773	—
Outstanding 31-60 days	8,628	—
Outstanding 61-90 days	762	—
Outstanding more than 90 days	3,906	—
Total construction receivables	17,069	—
Accrued revenue	30,519	8,878
Accrued construction revenue	35,322	—
Other receivables	13,147	134
Allowance for doubtful accounts	(4,148)	(152)
Total trade and other receivables	$ 143,391	$ 35,432

As at June 30, 2020, the Corporation provided an allowance for $4.1 million of receivables. Due to the COVID-19 pandemic and the resulting material disruption to businesses globally, combined with the significant decline in commodity prices, the allowance includes an additional $0.8 million related to receivables from customers operating in the oil & gas and mining industries.

Liquidity Risk

The following shows the timing of cash outflows relating to trade and other payables, lease liabilities and loans and borrowings as at June 30, 2020:

	June 30, 2020			December 31, 2019		
	Trade and other payables(1)	Lease liabilities(2)	Loans and borrowings(3)	Trade and other payables(1)	Lease liabilities(2)	Loans and borrowings(3)
Year 1	$ 76,579	$ 8,462	$ —	$ 16,629	$ 692	$ 5,453
Year 2	1,439	5,372	125,055	383	972	—
Year 3	1,971	3,415	—	375	208	—
Year 4	1,506	2,587	—	—	—	—
Year 5 and beyond	2,235	11,009	—	681	—	—
	$ 83,730	$ 30,845	$ 125,055	$ 18,068	$ 1,872	$ 5,453

(1) Trade and other payables include trade and other payables, income taxes payable, contingent consideration and asset retirement provisions.
(2) Lease liabilities include total undiscounted lease payments.
(3) Loans and borrowings include Horizon North's senior secured revolving term credit facility.

Interest Rate Risk

The Corporation is exposed to interest rate risk as changes in interest rates may affect interest expense and future cash flows. The primary exposure is related to the Corporation's revolving credit facility which bears interest at a rate of prime plus 1.00% to 2.25% or the Bankers' Acceptance rate plus 2.00% to 3.25%. If prime were to have increased by 1.00%, it is estimated that the Corporation's net earnings would have decreased by approximately $0.1 million for the three months ended June 30, 2020. This assumes that the amount and mix of fixed and floating rate debt in the period remains unchanged and that the change in interest rates is effective from the beginning of the period.

HORIZON NORTH