

10647802 Canada Limited
(operating as Dexterra Integrated Facilities Management)

Condensed Interim Consolidated Financial Statements

For the three month periods ended March 31, 2020 and 2019

10647802 Canada Limited
Condensed Interim Consolidated Balance Sheet (Unaudited)

	March 31, 2020	December 31, 2019
	\$	\$
Assets		
Current assets		
Cash	29,323,970	2,577,315
Trade and other receivables	35,293,060	35,431,938
Inventories	4,454,796	4,450,559
Prepaid expenses	2,795,083	1,780,796
Income taxes recoverable - net	1,317,235	965,003
Total current assets	<u>73,184,144</u>	<u>45,205,611</u>
Non-current assets		
Property, plant and equipment	8,217,542	8,253,846
Right-of-use assets	1,508,559	1,671,621
Intangible assets (note 5)	20,647,476	21,058,247
Goodwill (note 4)	98,640,434	98,640,434
Total non-current assets	<u>129,014,011</u>	<u>129,624,148</u>
Total assets	<u>202,198,155</u>	<u>174,829,759</u>
Liabilities		
Current liabilities		
Operating facility (note 7)	27,524,349	5,452,525
Trade and other payables	21,633,414	16,228,755
Deferred revenue	1,851,496	2,867,656
Lease liabilities	582,733	614,036
Contingent consideration	400,000	400,000
Total current liabilities	<u>51,991,992</u>	<u>25,562,972</u>
Long-term liabilities		
Lease liabilities	961,426	1,060,770
Contingent consideration	1,439,258	1,439,258
Deferred income taxes - net	1,766,878	1,644,079
Total long-term liabilities	<u>4,167,562</u>	<u>4,144,107</u>
Total liabilities	<u>56,159,554</u>	<u>29,707,079</u>
Shareholder's Equity		
Share capital (note 8)	131,542,600	131,542,600
Retained earnings	13,013,991	12,149,894
Non-controlling interest	1,482,010	1,430,186
Total shareholder's equity	<u>146,038,601</u>	<u>145,122,680</u>
Total liabilities and shareholder's equity	<u>202,198,155</u>	<u>174,829,759</u>

Subsequent event (note 17)

Approved by Officers



Director



Director

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

10647802 Canada Limited

Condensed Interim Consolidated Statement of Earnings and Other Comprehensive Income (Unaudited)

	Three months ended March 31, 2020	Three months ended March 31, 2019
	\$	\$
Revenue (note 9)	60,372,898	54,280,972
Operating expenses		
Direct costs (note 10)	55,761,672	51,483,535
Selling, general and administrative expenses (note 11)	1,328,319	921,936
Transaction costs	1,136,433	-
Depreciation	758,839	666,331
Amortization of intangible assets	512,387	355,062
Operating income	875,248	854,108
Gain on disposal of property, plant and equipment	(543,671)	-
Finance costs	119,269	24,337
Earnings before income taxes	1,299,650	829,771
Income tax (note 12)		
Current	218,309	138,251
Deferred	122,799	79,000
	341,108	217,251
Net earnings and comprehensive income for the period	958,542	612,520
Attributable to		
Non-controlling interest	94,445	(139,639)
Shareholder of 10647802 Canada Limited	864,097	752,159
	958,542	612,520
Net earnings per share, basic and diluted (note 14)	\$0.01	\$0.01

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

10647802 Canada Limited**Condensed Interim Consolidated Statement of Changes in Equity (Unaudited)**

	Share capital (number of shares)	Share capital \$	Non- controlling interest \$	Retained earnings \$	Total \$
As at December 31, 2018	113,908,004	113,908,004	1,258,203	6,132,298	121,298,505
Issuance of common shares	17,634,596	17,634,596	-	-	17,634,596
Net earnings (loss) and comprehensive income (loss) for the period	-	-	(139,639)	752,159	612,520
As at March 31, 2019	<u>131,542,600</u>	<u>131,542,600</u>	<u>1,118,564</u>	<u>6,884,457</u>	<u>139,545,621</u>
As at December 31, 2019	131,542,600	131,542,600	1,430,186	12,149,894	145,122,680
Net earnings and comprehensive income for the period	-	-	94,445	864,097	958,542
Dividends declared	-	-	(42,621)	-	(42,621)
As at March 31, 2020	<u>131,542,600</u>	<u>131,542,600</u>	<u>1,482,010</u>	<u>13,013,991</u>	<u>146,038,601</u>

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

10647802 Canada Limited

Condensed Interim Consolidated Statement of Cash Flows (Unaudited)

	Three months ended March 31, 2020 \$	Three months ended March 31, 2019 \$
Cash provided by (used in)		
Operating activities		
Net earnings and comprehensive income for the period	958,542	612,520
Adjustments for:		
Depreciation	758,839	666,331
Amortization of intangible assets	512,387	355,062
Gain on disposal of property, plant and equipment (PP&E)	(543,671)	-
Finance costs	119,269	24,337
Income tax expense	341,108	217,251
	<u>2,146,474</u>	<u>1,875,501</u>
Changes in non-cash working capital (note 13)	3,508,853	4,100,974
Interest paid	(119,269)	(24,337)
Income taxes paid	(570,541)	-
	<u>4,965,517</u>	<u>5,952,138</u>
Net cash flows from operating activities		
	<u>4,965,517</u>	<u>5,952,138</u>
Investing activities		
Purchase of property, plant and equipment	(587,702)	(1,051,781)
Purchase of intangible assets	(101,616)	(109,623)
Proceeds on sale of PP&E	571,900	-
Deferred payment to former shareholder (note 13)	-	(17,634,596)
	<u>(117,418)</u>	<u>(18,796,000)</u>
Net cash flows from investing activities		
	<u>(117,418)</u>	<u>(18,796,000)</u>
Financing activities		
Issuance of common shares (note 8)	-	17,634,596
Payments for lease liabilities	(130,647)	(103,341)
Proceeds from operating facility	22,071,824	-
Dividends paid to non-controlling interest	(42,621)	-
	<u>21,898,556</u>	<u>17,531,255</u>
Net cash flows from financing activities		
	<u>21,898,556</u>	<u>17,531,255</u>
Increase in cash during the period	<u>26,746,655</u>	<u>4,687,393</u>
Cash – Beginning of period	<u>2,577,315</u>	<u>16,259,646</u>
Cash – End of period	<u>29,323,970</u>	<u>20,947,039</u>

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

10647802 Canada Limited

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
For the three month periods ended March 31, 2020 and 2019

1 General information

10647802 Canada Limited (Dexterra or the Company) was incorporated in Canada under the laws of the Province of Ontario.

Dexterra provides facilities management and operations, remote workforce accommodations and forestry services across Canada.

The Company's registered office is 5915 Airport Rd., Suite 425, Mississauga ON L4V 1T1. The Company's immediate parent is 9477179 Canada Inc., 100% owned by Fairfax Financial Holdings Ltd., whose effective controlling shareholder is Prem Watsa.

The condensed interim consolidated financial statements of Dexterra as at March 31, 2020 and 2019 and for the three-month periods then ended were authorized for issuance by the Board of Directors on May 22, 2020.

2 Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards 34, "Interim Financial Reporting" ("IAS 34") as issued by the International Accounting Standards Board ("IASB") using accounting policies consistent with International Financial Reporting Standards ("IFRS").

3 Basis of preparation, significant accounting policies and changes in accounting policies

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 the Company'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 Company's functional currency, and the presentation currency of the condensed interim consolidated financial statements, is the Canadian dollar.

Changes in accounting policies

Effective January 1, 2020, Dexterra changed its accounting policy of presenting expenses recognized in the consolidated statement of earnings and other comprehensive income by nature in accordance with IAS 1 - Presentation of financial statements. The Company believes presenting an analysis of expenses recognized in the consolidated statement of earnings and other 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.

4 Critical accounting estimates and judgments

The preparation of condensed interim consolidated 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 the Company'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 three months ended March 31, 2020, except for the determination of recoverable amounts for goodwill discussed below.

10647802 Canada Limited

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited) For the three month periods ended March 31, 2020 and 2019

During the first quarter of 2020 the company updated its impairment assessments on its goodwill and customer lists which included added 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 company 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 company'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 company concluded there was no impairment of its goodwill, customer lists and inventories at March 31, 2020.

5 Intangible assets

Intangible assets at the consolidated balance sheet date are as follows:

	Customer relationships \$	Computer software \$	Total \$
Cost			
As at December 31, 2019	22,482,697	1,125,093	23,607,790
Additions	-	101,616	101,617
As at March 31, 2020	22,482,697	1,226,709	23,709,406
Accumulated amortization			
As at December 31, 2019	(2,163,156)	(386,387)	(2,549,543)
Amortization for the year	(446,925)	(65,462)	(512,387)
As at March 31, 2020	(2,610,081)	(451,849)	(3,061,930)
Net book value – March 31, 2020	19,872,616	774,860	20,647,476
	Customer relationships \$	Computer software \$	Total \$
Cost			
As at December 31, 2018	20,000,000	751,473	20,751,473
Additions	-	109,623	109,623
As at March 31, 2019	20,000,000	861,096	20,861,096
Accumulated amortization			
As at December 31, 2018	(973,222)	(44,609)	(1,017,831)
Amortization for the year	(292,440)	(62,622)	(355,062)
As at March 31, 2019	(1,265,662)	(107,231)	(1,372,893)
Net book value – March 31, 2019	18,734,338	753,865	19,488,203

10647802 Canada Limited

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
For the three month periods ended March 31, 2020 and 2019

6 Financial risk management

In the normal course of business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks are: credit risk, liquidity risk and market risk. The Company's overall risk management program and prudent business practices seek to minimize any potential adverse effects on the Company's financial performance.

The condensed interim consolidated 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 Company'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 Company'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 new information which may emerge concerning the severity of COVID-19 and 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 Company'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 Company expects its facilities management segment to experience significant reductions in revenue due to current economic conditions, particularly for facilities management services provided in the Aviation and Retail sectors. Dexterra has implemented related 40% reductions in 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. It also expects to receive funding from the federal Canadian government support programs in the second quarter of 2020.

The Company 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 March 31, 2020. Further developments related to the economy in Canada, which were unforeseen as at March 31, 2020 could have an adverse effect on the recoverability of trade receivables.

The ultimate impact of COVID-19 on the company may not be fully known for an extended period of time.

7 Operating facility

On June 11, 2019, the Company amended its credit facilities agreement with the Canadian Imperial Bank of Commerce. The credit limit is \$32.0 million with an additional accordion feature of \$18.0 million, bears interest at the bank's prime lending rate plus 0.5% to 1.25% and matures on June 10,

10647802 Canada Limited

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited) For the three month periods ended March 31, 2020 and 2019

2023. As part of the agreement, the Company is required to maintain a Debt to EBITDA ratio of less than 3 and a Fixed Charge Coverage Ratio greater than 1.2, tested quarterly.

As at March 31, 2020, approximately \$27.5 million was drawn on the operating facility as the full impact of the COVID-19 pandemic on the Company was unknown at that time. The Company had cash in excess of the operating facility at March 31, 2020. In addition, \$2.9 million of letters of credit were outstanding as at March 31, 2020 under the credit facilities agreement. The undrawn portion of the credit facility at March 31, 2020 was \$1.6 million. The Company was in compliance with the Debt to EBITDA and Fixed Charge Coverage Ratio requirements stipulated in the agreement and the facility has been repaid in May 2020.

8 Share capital

Dexterra 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.

	Total number of shares	Total share capital \$
Balance, December 31, 2019 and March 31, 2020	<u>131,542,600</u>	<u>131,542,600</u>
Balance, December 31, 2018	113,908,004	113,908,004
Issuance of common shares	<u>17,634,596</u>	<u>17,634,596</u>
Balance, March 31, 2019	<u>131,542,600</u>	<u>131,542,600</u>

As part of the acquisition of the services business carried on by Carillion Canada, on March 7, 2018, the Company assumed a liability of \$17.6 million related to the final payment to the former shareholders of a business previously purchased by Carillion. In January 2019, 17,634,596 shares were issued in exchange for the final payment to the former shareholders.

10647802 Canada Limited

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

For the three month periods ended March 31, 2020 and 2019

9 Disaggregation of revenue

Revenue is disaggregated primarily by service lines to depict the nature, amount and timing of revenue. The Company's revenues are derived from facilities management and workforce accommodation and forestry services. In the following table, revenue is disaggregated by the nature of service provided for the purpose of determining how economic factors affect the recognition of revenue. The workforce accommodation and forestry segment is seasonal in nature with higher revenues earned during May to September each year, related to tree planting and fire fighting.

	Three month period ended March 31, 2020 \$	Three month period ended March 31, 2019 \$
Facilities management	42,777,655	38,499,640
Workforce accommodation and forestry	17,595,243	15,781,332
	<u>60,372,898</u>	<u>54,280,972</u>

10 Direct costs – by nature

	Three month period ended March 31, 2020 \$	Three month period ended March 31, 2019 \$
Wages and benefits	36,349,548	32,572,914
Subcontracting	9,159,341	5,829,523
Product cost	5,573,244	5,917,646
Equipment and repairs	800,125	1,059,133
Vehicles	608,960	564,188
Other operating expenses	3,270,454	5,540,131
	<u>55,761,672</u>	<u>51,483,535</u>

11 Selling and administrative expenses - by nature

	Three month period ended March 31, 2020 \$	Three month period ended March 31, 2019 \$
Wages and benefits	812,571	763,955
Other	515,748	157,981
	<u>1,328,319</u>	<u>921,936</u>

10647802 Canada Limited

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
For the three month periods ended March 31, 2020 and 2019

12 Income taxes

The deferred tax balance primarily relates to temporary differences attributable to goodwill.

Total income taxes are different from the amount computed by applying the corporate Canadian statutory rate for 2020 of 26.5%. The reasons for the differences are as follows:

	Three month period ended March 31, 2020 \$	Three month period ended March 31, 2019 \$
Net earnings and comprehensive income before income taxes	1,299,650	829,771
Computed income tax expense	344,407	219,889
Other	(3,299)	(2,638)
Income tax expense	341,108	217,251

13 Cash flow information

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

	Three month period ended March 31, 2020 \$	Three month period ended March 31, 2019 \$
Changes in non-cash working capital		
Trade and other receivables	138,878	7,868,378
Inventories	(4,237)	278,021
Prepaid expenses	(1,014,287)	(1,274,383)
Trade and other payables	5,404,659	(2,517,198)
Deferred revenue	(1,016,160)	(253,844)
	3,508,853	4,100,974

10647802 Canada Limited

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
For the three month periods ended March 31, 2020 and 2019

14 Net earnings per share

	Three month period ended March 31, 2020 \$	Three month period ended March 31, 2019 \$
Net earnings for the period attributable to ordinary equity holders of the Company	864,097	752,159
Weighted average shares outstanding	131,542,600	131,150,720
Net earnings per share attributable to ordinary equity holders of the Company	<u>\$0.01</u>	<u>\$0.01</u>

15 Reportable segment information

Three month period to March 31, 2020	Facilities Management \$	Workforce Accommo- dation and Forestry \$	Corporate \$	Total \$
Revenue	42,777,655	17,595,243	-	60,372,898
Operating expenses				
Direct costs	40,130,162	15,631,510	-	55,761,672
Selling and administrative expenses	-	-	1,328,319	1,328,319
Transaction costs	-	-	1,136,433	1,136,433
Depreciation and amortization	822,247	334,296	114,683	1,271,226
Operating income	1,825,246	1,629,437	(2,579,435)	875,248
(Gain) on disposal of assets	(3,600)	(540,071)	-	(543,671)
Finance costs	-	-	119,269	119,269
Earnings before income tax	1,828,846	2,169,508	(2,698,704)	1,299,650
Total assets	122,910,728	77,568,887	1,718,540	202,198,155

Three month period to March 31, 2019	Facilities Management \$	Workforce Accommo- dation and Forestry \$	Corporate \$	Total \$
Revenue	38,499,640	15,781,332	-	54,280,972
Operating expenses				
Direct costs	36,835,880	14,647,655	-	51,483,535
Selling and administrative expenses	-	-	921,936	921,936
Depreciation and amortization	633,371	325,400	62,622	1,021,393
Operating income	1,030,389	808,277	(984,558)	854,108
Finance costs	-	-	24,337	24,337
Earnings before income tax	1,030,389	808,277	(1,008,895)	829,771
Total assets	108,874,900	67,203,470	1,538,675	177,617,045

10647802 Canada Limited

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
For the three month periods ended March 31, 2020 and 2019

16 Related party transactions

The remuneration paid to key management personnel in the first quarter of 2020, which includes the Company's most senior corporate officers who have the authority and responsibility for planning, directing and controlling the activities of Dexterra was \$0.5 million (2019 – \$0.5 million).

In addition, in March 2020, the Company purchased property, general liability, automobile and umbrella insurance for \$1.5 million with a one-year term from Northbridge General Insurance Corporation, a company with the same controlling shareholder as Dexterra.

All related party transactions were measured at arms length and there are no ongoing contractual or other commitments resulting from the transactions.

17 Subsequent events

On March 9, 2020, the Company and its shareholder entered into a Purchase Agreement with Horizon North Logistics Inc. (Horizon North). Under the terms of the Purchase Agreement, Horizon North will acquire all of the issued and outstanding shares of the Company in exchange for such number of Horizon North shares that will, immediately following the completion of the transaction, represent 49% of the issued and outstanding Horizon Shares, calculated on a fully diluted basis. The transaction is anticipated to close in the second quarter of 2020, subject to approval by Horizon North shareholders at a meeting on May 26, 2020 and the satisfaction of customary closing conditions. Horizon North, based in the province of Alberta, is a publicly listed corporation providing a range of industrial services and modular construction solutions.