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.

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.