Condensed Consolidated Interim Financial Statements of

HORIZON NORTH

Three and six months ended June 30, 2020 and 2019 (Unaudited)

Condensed consolidated statement of financial position (Unaudited)

HORIZON NORTH

(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

(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.

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 social and 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 social and 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.

	Three months ended June 30,		Six months ended June 30,	
(000's)	2020	2019	2020	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:

	Three months ended June 30,		Six months ended June 30,	
(000's)	2020	2019	2020	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:

	Three months ended June 30,		Six months ended June 30,	
(000's)	2020	2019	2020	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,		Six months ended June 30,	
	2020	2019	2020	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 social and 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 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, 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.