



**MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")  
THREE MONTHS ENDED JUNE 30, 2010**

This Management's Discussion and Analysis, prepared as at August 9, 2010, focuses on key statistics from the Consolidated Financial Statements and pertains to known risks and uncertainties relating to the business carried on by Horizon North Logistics Inc. (the "Corporation" or "Horizon"). This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions.

**Highlights**

<i>(000's except per share amounts)</i>	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenue from operations	\$ 45,851	\$ 35,574	\$ 89,973	\$ 76,151
Cancellation fee	-	8,000	-	8,000
<b>Total Revenue</b>	<b>\$ 45,851</b>	<b>\$ 43,574</b>	<b>\$ 89,973</b>	<b>\$ 84,151</b>
EBITDAS from operations <sup>(1)</sup>	7,876	7,419	17,327	19,809
Cancellation fee	-	8,000	-	8,000
<b>Total EBITDAS</b>	<b>7,876</b>	<b>15,419</b>	<b>17,327</b>	<b>27,809</b>
Earnings from operations <sup>(1)</sup>	869	1,267	3,724	6,677
Cancellation fee	-	8,000	-	8,000
<b>Total operating earnings</b>	<b>869</b>	<b>9,267</b>	<b>3,724</b>	<b>14,677</b>
Net earnings	171	5,883	1,283	9,585
Net earnings per share - diluted	\$ -	\$ 0.05	\$ 0.01	\$ 0.09
Total assets	252,907	228,013	252,907	228,013
Total long-term financial liabilities <sup>(2)</sup>	34,509	21,914	34,509	21,914
Funds from operations <sup>(3)</sup>	7,045	13,936	14,700	25,305
Capital spending	13,568	2,027	26,809	8,070
Debt to total capitalization ratio	0.17:1	0.11:1	0.17:1	0.11:1

(1) EBITDAS (Earnings before interest, taxes, depreciation, amortization, accretion of notes payable, gain/loss on disposal of property, plant and equipment and stock based compensation) and operating earnings are not recognized measures under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net earnings, EBITDAS is a useful supplemental measure as it provides an indication of the Corporation's ability to generate cash flow in order to fund working capital, service debt, pay current income taxes and fund capital programs. Management believes that in addition to net earnings, operating earnings is a useful supplemental measure as it provides an indication of the results generated by the Corporation's principal business activities prior to consideration of how those activities are financed or taxed. Investors should be cautioned, however, that EBITDAS and operating earnings should not be construed as alternatives to net earnings determined in accordance with GAAP as an indicator of the Corporation's performance. Horizon's method of calculating EBITDAS and operating earnings may differ from other entities and accordingly, EBITDAS and operating earnings may not be comparable to measures used by other entities. For a reconciliation of EBITDAS and operating earnings to net earnings, please refer to page 2 of the Management's Discussion and Analysis.

(2) Long-term financial liabilities include operating lines of credit, the current and long-term portions of long-term debt.

(3) Funds from operations is not a recognized measure under GAAP. Management believes that in addition to cash flow from operations, funds from operations is a useful supplemental measure as it provides an indication of the cash flow generated by the Corporation's principal business activities prior to consideration of changes in working capital. Investors should be cautioned, however, that funds from operations should not be construed as an alternative to cash flow from operations determined in accordance with GAAP as an indicator of the Corporation's performance. Horizon's method of calculating funds from operations may differ from other entities and accordingly, funds from operations may not be comparable to measures used by other entities. Funds from operations is equal to cash flow from operations before changes in non-cash working capital items related to operations.

**Outlook**

Increased oil sands development activities in northern Alberta continues to be the primary driver of Horizon's operating activities and revenue. Our manufacturing plants are booked into 2011 working on camp projects for new and expanding oil sands projects, and our BlackSand open camp near Fort McMurray, Alberta is completed and operating at capacity. We continue to see opportunities to expand our business in this industry sector. With improved mineral prices, the mining industry in western Canada is becoming more active and we are participating in a number of new and expanding projects with our camp manufacturing and management services in this sector as well. Our road and location matting business has also enjoyed increased activity levels associated with unconventional natural gas and in-situ oil sands development projects and we see this continuing in the latter half of the year. From a financing perspective, the Company's combined cash flow and borrowing capacity on our credit lines will be sufficient to support our existing plans.

## Financial Results

(000's)	Three months ended June 30, 2010						Total
	Camps & Catering	Matting	Marine Services	Corporate	Inter-segment Eliminations		
<b>Revenue</b>							
Revenue from operations	\$ 40,437	\$ 5,686	\$ 396	\$ -	\$ (668)	\$ 45,851	
Cancellation fee	-	-	-	-	-	-	
<b>Total revenue</b>	<b>\$ 40,437</b>	<b>\$ 5,686</b>	<b>\$ 396</b>	<b>\$ -</b>	<b>\$ (668)</b>	<b>\$ 45,851</b>	
<b>Expenses</b>							
Cost of goods sold	10,731	588	-	-	-	11,319	
Operating	20,561	3,261	970	-	(646)	24,146	
General & administrative	866	117	7	1,549	-	2,539	
Foreign exchange loss (gain)	3	(27)	-	(5)	-	(29)	
<b>EBITDAS</b>							
EBITDAS from operations	\$ 8,276	\$ 1,747	\$ (581)	\$ (1,544)	\$ (22)	\$ 7,876	
Cancellation fee	-	-	-	-	-	-	
<b>Total EBITDAS</b>	<b>\$ 8,276</b>	<b>\$ 1,747</b>	<b>\$ (581)</b>	<b>\$ (1,544)</b>	<b>\$ (22)</b>	<b>\$ 7,876</b>	
Stock based compensation	120	32	3	202	-	357	
Depreciation & amortization	4,655	1,344	296	120	(20)	6,395	
Loss (gain) on disposal of property, plant & equipment	264	(21)	-	12	-	255	
<b>Earnings (loss) from operations</b>							
Operating earnings (loss)	\$ 3,237	\$ 392	\$ (880)	\$ (1,878)	\$ (2)	\$ 869	
Cancellation fee	-	-	-	-	-	-	
<b>Total operating earnings (loss)</b>	<b>\$ 3,237</b>	<b>\$ 392</b>	<b>\$ (880)</b>	<b>\$ (1,878)</b>	<b>\$ (2)</b>	<b>\$ 869</b>	
Interest income						(14)	
Interest expense on operating lines of credit						99	
Interest expense on long-term debt						331	
Loss on equity investments						150	
Accretion of notes payable						(147)	
Income tax expense						279	
<b>Net earnings</b>						<b>\$ 171</b>	

	Three months ended June 30, 2009						
(000's)	Camps & Catering	Matting	Marine Services	Corporate	Inter-segment Eliminations	Total	
<b>Revenue</b>							
Revenue from operations	\$ 29,925	\$ 4,039	\$ 1,992	\$ -	\$ (382)	\$ 35,574	
Cancellation fee	8,000	-	-	-	-	8,000	
<b>Total revenue</b>	<b>\$ 37,925</b>	<b>\$ 4,039</b>	<b>\$ 1,992</b>	<b>\$ -</b>	<b>\$ (382)</b>	<b>\$ 43,574</b>	
<b>Expenses</b>							
Cost of goods sold	7,491	539	-	-	(5)	8,025	
Operating	15,280	2,034	1,059	-	(377)	17,996	
General & administrative	493	100	4	1,518	-	2,115	
Foreign exchange loss (gain)	-	121	-	(102)	-	19	
<b>EBITDAS</b>							
EBITDAS from operations	\$ 6,661	\$ 1,245	\$ 929	\$ (1,416)	\$ -	\$ 7,419	
Cancellation fee	8,000	-	-	-	-	8,000	
<b>Total EBITDAS</b>	<b>\$ 14,661</b>	<b>\$ 1,245</b>	<b>\$ 929</b>	<b>\$ (1,416)</b>	<b>\$ -</b>	<b>\$ 15,419</b>	
Stock based compensation	17	23	3	154	-	197	
Depreciation & amortization	5,204	1,513	289	59	(32)	7,033	
Gain on disposal of property, plant & equipment	(1,027)	(51)	-	-	-	(1,078)	
<b>Earnings (loss) from operations</b>							
Operating earnings (loss)	\$ 2,467	\$ (240)	\$ 637	\$ (1,629)	\$ 32	\$ 1,267	
Cancellation fee	8,000	-	-	-	-	8,000	
<b>Total operating earnings (loss)</b>	<b>\$ 10,467</b>	<b>\$ (240)</b>	<b>\$ 637</b>	<b>\$ (1,629)</b>	<b>\$ 32</b>	<b>\$ 9,267</b>	
Interest income							(10)
Interest expense on operating lines of credit							88
Interest expense on long-term debt							419
Earnings on equity investments							(22)
Income tax expense							2,909
<b>Net earnings</b>							<b>\$ 5,883</b>

<b>Six months ended June 30, 2010</b>						
<i>(000's)</i>	Camps & Catering	Matting	Marine Services	Corporate	Inter-segment Eliminations	Total
<b>Revenue</b>						
Revenue from operations	\$ 76,024	\$ 15,176	\$ 629	\$ -	\$ (1,856)	\$ 89,973
Cancellation fee	-	-	-	-	-	-
<b>Total revenue</b>	<b>\$ 76,024</b>	<b>\$ 15,176</b>	<b>\$ 629</b>	<b>\$ -</b>	<b>\$ (1,856)</b>	<b>\$ 89,973</b>
<b>Expenses</b>						
Cost of goods sold	14,208	3,346	-	-	(188)	17,366
Operating	42,171	7,869	1,341	-	(1,572)	49,809
General & administrative	1,567	229	7	3,665	-	5,468
Foreign exchange loss (gain)	17	(20)	2	4	-	3
<b>EBITDAS</b>						
EBITDAS from operations	\$ 18,061	\$ 3,752	\$ (721)	\$ (3,669)	\$ (96)	\$ 17,327
Cancellation fee	-	-	-	-	-	-
<b>Total EBITDAS</b>	<b>\$ 18,061</b>	<b>\$ 3,752</b>	<b>\$ (721)</b>	<b>\$ (3,669)</b>	<b>\$ (96)</b>	<b>\$ 17,327</b>
Stock based compensation	242	59	6	382	-	689
Depreciation & amortization	9,114	2,679	591	193	(35)	12,542
Loss on disposal of property, plant & equipment	284	76	-	12	-	372
<b>Earnings (loss) from operations</b>						
Operating earnings (loss)	\$ 8,421	\$ 938	\$ (1,318)	\$ (4,256)	\$ (61)	\$ 3,724
Cancellation fee	-	-	-	-	-	-
<b>Total operating earnings (loss)</b>	<b>\$ 8,421</b>	<b>\$ 938</b>	<b>\$ (1,318)</b>	<b>\$ (4,256)</b>	<b>\$ (61)</b>	<b>\$ 3,724</b>
Interest income						(14)
Interest expense on operating lines of credit						170
Interest expense on long-term debt						785
Loss on equity investments						197
Accretion of notes payable						(54)
Income tax expense						1,357
<b>Net earnings</b>						<b>\$ 1,283</b>



## Camps & Catering

Camps & Catering revenue is comprised of camp rental and catering revenue, camp and space unit sales, equipment and space rental revenue, and service revenue from transportation and installation.

	Three months ending June 30		Six months ending June 30	
	2010	2009	2010	2009
<i>(000's except bed rental days and catering only days)</i>				
Camp rental and catering revenue	\$ 21,275	\$ 14,321	\$ 44,669	\$ 38,814
Camp and space sales revenue	14,349	11,306	20,043	15,910
Rental revenue	1,057	1,014	1,559	1,533
Service revenue	3,756	3,284	9,753	7,784
Revenue from operations	\$ 40,437	\$ 29,925	\$ 76,024	\$ 64,041
Cancellation fee	-	8,000	-	8,000
Total revenue	\$ 40,437	\$ 37,925	\$ 76,024	\$ 72,041
EBITDAS				
Operations	\$ 8,276	\$ 6,661	\$ 18,061	\$ 18,842
Cancellation fee	-	8,000	-	8,000
Total EBITDAS	\$ 8,276	\$ 14,661	\$ 18,061	\$ 26,842
Operating earnings				
Operations	\$ 3,237	\$ 2,467	\$ 8,421	\$ 9,399
Cancellation fee	-	8,000	-	8,000
Total operating earnings	\$ 3,237	\$ 10,467	\$ 8,421	\$ 17,399
Bed rental days <sup>(1)</sup>	106,130	71,258	222,654	188,637
Catering only days <sup>(2)</sup>	31,314	30,872	56,854	78,893

(1) One bed rental day equals the rental of one bed and the provision of related catering and housekeeping services for one day.

(2) One catering only day equals the provision of catering and housekeeping services with no related bed rental for one day.

Revenues in the second quarter of 2009 included a cancellation fee of \$8,000,000 related to the restructuring of a long-term contract with a large oil sands client, which flowed directly into EBITDAS and operating earnings.

Revenue from operations in the Camps & Catering segment was \$40,437,000 for the three months ended June 30, 2010, compared to \$29,925,000 for the same period in 2009, an increase of \$10,512,000. EBITDAS from operations for the three months ended June 30, 2010 was \$8,276,000 or 20% of revenue compared to \$6,661,000 or 22% of revenue the same period in 2009.

### Camp rental and catering revenue

Revenues from camp rental and catering operations were \$21,275,000 for the three months ended June 30, 2010 compared to \$14,321,000 for the same period in 2009, an increase of \$6,954,000. Revenues are derived from the following main business areas: the BlackSand facilities which include the Executive Lodge and craft camp facilities, north of Fort McMurray, Alberta, and the conventional camp and catering operations which include open camps, rig camps, catering only work, and ancillary equipment rentals.

#### BlackSand

Revenues from the BlackSand facilities for the three months ended June 30, 2010 were \$15,754,000 as compared to \$7,415,000 for the same period in 2009. The increase of \$8,339,000 came from higher volumes and slightly higher revenue per day based on the mix of rentable rooms between executive and craft accommodations.

Bed rental days for the three months ended June 30, 2010 were 95,954 as compared to 46,497 in the same period in 2009 which translates into utilization of approximately 86% during the second quarter of 2010 as compared to average utilization of 53% during the second quarter of 2009. Both volume and utilization levels in the second quarter of 2010 were significantly improved, as oil sands operators continued to ramp up both new and previously delayed projects. Volumes and utilization in second quarter of 2009 were lower as a number of oil sands operators moved to temporarily postpone or delay projects in response to both lower oil prices and general economic circumstances. On a bed rental per day basis, revenues increased to \$164 per day in the second quarter of 2010 from \$159 per day in the same period in 2009.

Expansion of both the craft camp facilities and the Executive Lodge was undertaken in 2010. The craft camp facilities were expanded in the first quarter of 2010, adding 230 beds. These beds were redeployed from the underutilized facilities in the conventional camp rental and catering part of the business. Expansion of the Executive Lodge was completed in the second quarter of 2010 adding 144 newly manufactured beds. The additional beds brought the total rentable beds at the BlackSand facilities to approximately 1,300 at the end of June 2010.

#### **Conventional Camp Rental and Catering**

Revenues from open camp and rig camp operations, which combine both bed rental and provision of catering and housekeeping services, for the three months ended June 30, 2010 were \$1,460,000 as compared to \$3,427,000 for the same period in 2009, a decrease of \$1,967,000. The decrease was driven by lower volumes with bed rental days of 10,176 for the three months ended June 30, 2010 as compared to 24,761 for the same period in 2009. The majority of this decrease was a result of lower open camp activity with decreased utilization across our operating locations. As a result, approximately 230 beds were redeployed for use at the BlackSand craft camp facilities from various operating locations. Revenues per bed rental day basis were slightly higher at \$143 per day in the three months ended June 30, 2010 as compared to \$138 in the same period in 2009. Revenue generated by the provision of bed rental only for the three months ended June 30, 2010 was \$514,000 as compared to \$502,000 for the same period in 2009.

Revenues from the provision of catering and housekeeping only services, with no associated bed rentals, for the three months ended June 30, 2010 was \$3,547,000 as compared to \$2,977,000 for the same period in 2009, an increase of \$570,000. Catering only days were 31,314 in the three months ended June 30, 2010 as compared to 30,872 for the same period in 2009. Higher revenue was from increasing mining activity in the Northwest Territories where the corporation operates a customer owned camp at a gold mine under construction. The mine construction project is in the ramp-up phase and catering and housekeeping revenues are expected to keep pace with ongoing development.

#### **Camp and space sales revenue**

Camp and space sales revenues for the three months ended June 30, 2010 were \$14,349,000 as compared to \$11,306,000 for the same period in 2009. Included in the second quarter revenue was \$1,442,000 related to the sale of blast resistant structures, with the balance from the completion of design and engineering work for a large oil sands camp project which was announced at the end of April 2010.

Revenues in 2009 were mainly from two larger projects with stronger margins. Projects undertaken in 2010 to date have been lower margin projects bid and awarded in more difficult economic times. Our manufacturing facilities have now cleared the majority of these lower margin backlog projects and units from our recently awarded camp manufacturing contracts started production late in the second quarter of 2010.

#### **Rental revenue**

Space rental revenues for the three months ended June 30, 2010 were \$1,057,000 as compared to \$1,014,000 for the same period in 2009, an increase of \$43,000. Rental fleet utilization was consistent each quarter at 76%.

#### **Service revenue**

Revenues from service work for the three months ended June 30, 2010 were \$3,756,000 as compared to \$3,284,000 for the same period in 2009, an increase of \$472,000. Service revenues were higher in the quarter mainly driven by the increase in manufacturing and rental activity.

EBITDAS from the BlackSand facilities for the three months ended June 30, 2010 was \$5,980,000 or 38% of revenue as compared to \$1,861,000 or 25% of revenue for the same period in 2009. The increased EBITDAS percentage is a result of both higher volumes and utilization for the three months ended June 30, 2010 as compared to the same period in 2009.

EBITDAS from the operations other than BlackSand in the three months ended June 30, 2010 were \$2,296,000 or 9% of revenue as compared to \$4,800,000 or 21% of revenue for the same period in 2009. The blast resistant units sold were the first production units for this product and as such, the production process had not been optimized. The EBITDAS on sale of these first units was a loss of approximately \$700,000. Normalizing for this sale, EBITDAS for the three months ended June 30, 2010 was \$2,996,000 or 12% of revenue. Decreased volumes from the conventional camp rental and catering business contributed lower EBITDAS, as did lower margin service work. Manufacturing projects undertaken during the quarter contributed lower margins as they were bid and awarded in more difficult economic times.

## Matting

Matting revenue is comprised of mat rental revenue, mat sales revenue, installation, transportation, service, and other revenue as follows:

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
<i>(000's except trucking, rental days and mats)</i>				
Mat rental revenue	\$ 1,525	\$ 1,309	\$ 2,654	\$ 2,214
Mat sales revenue	889	597	4,576	2,120
Installation, transportation, service and other revenue	3,272	2,133	7,946	4,832
Total revenue	\$ 5,686	\$ 4,039	\$ 15,176	\$ 9,166
EBITDAS	\$ 1,747	\$ 1,245	\$ 3,752	\$ 2,282
Operating earnings (loss)	\$ 392	\$ (240)	\$ 938	\$ (838)
Mat rental days	833,659	538,209	1,329,940	843,847
Average mats in rental fleet	12,190	12,479	12,673	12,958
Mats sold				
New mats	659	48	2,714	1,274
Used mats	1,010	981	5,361	2,090
Total mats sold	1,669	1,029	8,075	3,364

Revenues from the Matting segment for the three months ended June 30, 2010 were \$5,686,000 as compared to \$4,039,000 for the same period in 2009, an increase of \$1,647,000.

Mat rental revenues for the three months ended June 30, 2010 were \$1,525,000 as compared to \$1,309,000 for the same period in 2009, an increase of \$216,000. This increase was driven by higher mat rental days of 833,659 for the three months ended June 30, 2010 compared to 538,209 for the same period in 2009, driven by both shale gas activity and wet weather which required customers to rent mats and extend existing rentals. The increase in mat rental days was partially offset by lower rental rates. Mat rental rates for the second quarter of 2010 were \$1.83 per day as compared to \$2.43 per day for the same period in 2009, a decrease of \$0.60 per day. The three months ended June 30, 2010 had a large rental contract that was at a discounted rental rate. This accounted for \$0.30 per day of the rate decrease with the remainder from continuing competitive pressure from existing competitors.

Mat sales revenues for the three months ended June 30, 2010 were \$889,000 as compared to \$597,000 for the same period in 2009. The total number of mats sold increased as compared to the same period in 2009, as overall customer demand and activity levels increased in 2010. Revenue per mat sold during the second quarter of 2010 was \$533, down from \$580 in the second quarter of 2009. Although a higher percentage of mats sold in the second quarter of 2010 were new mats, they were mostly oak edge mats which are a combination of oak and other softwood lumbers, and sell at a lower price than solid oak mats. This effect, combined with market pressure on used mat pricing, combined to lower the overall revenue per mat figure.

Installation, transportation, service and other revenues for the three months ended June 30, 2010 were \$3,272,000 as compared to \$2,133,000 for the same period in 2009. The increase was from service associated with increased mat sales and mat rental days, as well as movement of approximately 41,000 customer owned mats.

EBITDAS for the three months ended June 30, 2010 was \$1,747,000 as compared to \$1,245,000, and consistent at 31% of revenue in both periods of 2010 and 2009. The increase of \$502,000 in EBITDAS is attributable to increased volumes in all areas.

## Marine Services

Marine Services revenue is comprised of tug and barge revenue, barge camp revenue, and rental and other revenue as follows:

(000's)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Tug revenue	\$ -	\$ 30	\$ -	\$ 30
Barge revenue	-	-	-	-
Barge camp revenue	101	1,676	101	2,958
Rental and other revenue	295	286	528	759
Total revenue	\$ 396	\$ 1,992	\$ 629	\$ 3,747
EBITDAS	\$ (581)	\$ 929	\$ (721)	\$ 1,820
Operating (loss) earnings	\$ (880)	\$ 637	\$ (1,318)	\$ 1,236

Revenue from the Marine Services segment for the three months ended June 30, 2010 was \$396,000 as compared to \$1,992,000 for the same period in 2009. Revenues in the second quarter of 2009 were primarily related to equipment rentals in support of drilling programs which did not take place in the second quarter of 2010. Also included in the second quarter 2009 revenue was a customer payment of a \$500,000 penalty for postponing their 2009/2010 barge camp rental commitments.

EBITDAS for the three months ended June 30, 2010 was a loss of \$581,000 as compared to income of \$929,000 for the same period in 2009, a decrease of \$1,510,000. The majority of the decrease was related to overall lower activity levels in the region. In the three months ended June 30, 2010, the John Wurlinger accommodation/work barge was dry docked and underwent a comprehensive out of water inspection. This type of inspection is required every four years to meet Transport Canada's regulations, and was undertaken to ensure the vessel would be ready to satisfy upcoming customer project commitments. In addition to constructing dry dock facilities, incremental costs of \$141,000 were incurred related to this project.

## Corporate

Corporate costs are the costs of the head office which include the Executive Chairman, President and Chief Executive Officer, Chief Financial Officer, Vice President of Safety, Corporate Secretary, Corporate Accounting staff, and associated costs of supporting a public company. Cash costs for the three months ended June 30, 2010 were \$1,549,000 as compared to \$1,518,000 for the same period in 2009. This increase of \$29,000 is related to additional staff and higher incentive compensation estimates based on the increased level of activity anticipated in 2010.

## Other Items

### Foreign exchange gain/loss

Foreign exchange gain for the for the three months ended June 30, 2010 was \$29,000 as compared to a loss of \$19,000 in the same period of 2009. The gain in the quarter ended June 30, 2010, was a result of favorable exchange rate fluctuations which affected of the Corporation's US dollar denominated currency holdings.

### Interest income

Interest income for the three months ended June 30, 2010 was \$14,000 compared to \$10,000 in the same period of 2009. Interest income was earned on related party loans as well as deposits held as guarantees.

### Interest on operating lines of credit and long-term debt

Interest on operating lines of credit and long-term debt for the three months ended June 30, 2010 was \$430,000 as compared to \$507,000 in the same period of 2009. The decrease in interest expense is attributable to the weighted average amount of debt held of \$32,489,000 in the three months ended June 30, 2010 as compared to \$38,364,000 in the same period of 2009.

### Earnings/loss on equity investments

The earnings on equity investments of Mackenzie Valley Logistics Inc. ("Mackenzie Valley"), and Mackenzie Delta Integrated Oilfield Services Ltd. ("MDIOS") was a loss of \$150,000 in the three months ended June 30, 2010 as compared to earnings of \$22,000 in the same period of 2009. Overall activity levels in Canada's Northern regions were not strong during the quarter.

### *Income taxes*

Income tax expense was \$279,000, an effective tax rate of 62.0%, for the three months ended June 30, 2010 as compared to \$2,909,000, an effective tax rate of 33.0%, for the same period of 2009. This higher effective tax rate realized in the three months ended June 30, 2010 was due to increased stock based compensation amounts and losses on equity investments that are included in the computation of accounting income but are non-deductible for tax purposes. Excluding these amounts, the effective tax rate would be 29% as compared to 32% in 2009.

### *Share repurchase*

The Corporation was granted approval from the Toronto Stock Exchange for a normal course issuer bid to repurchase up to a maximum of 7,426,978 common shares of the Corporation over the period from July 24, 2009 to July 23, 2010. As of expiration on July 23, 2010, 5,185,500 common shares had been repurchased and cancelled for a weighted average purchase price of \$1.24 including transaction costs.

### *Significant transactions*

On June 28, 2010, the Corporation announced that it was awarded a camp construction project for a 650 person, 210 unit camp by a major operator in the oil sands region of northern Alberta. Total value of the camp sale project, which includes design, manufacture, transportation and site installation, is approximately \$25 million.

## **Liquidity and Capital Resources**

The Corporation's working capital position and borrowing capacity are set out below:

<i>(000's)</i>	June 2010	December 2009
Current assets	44,525	41,596
Operating lines of credit	8,700	6,900
Current liabilities excluding borrowings <sup>(1)</sup>	33,522	14,459
Current portion of long-term debt	1,711	1,939
Current liabilities	43,933	23,298
Working capital <sup>(2)</sup>	592	18,298
Bank borrowing		
Operating lines of credit	8,700	6,900
Senior secured revolving term facility	17,700	29,100
Total Bank borrowings	26,400	36,000
Available bank lines <sup>(3)(4)</sup>	60,000	80,000
Borrowing capacity <sup>(5)</sup>	33,600	44,000

(1) Calculated as the sum of bank indebtedness, accounts payable and accrued liabilities, and deferred revenue.

(2) Calculated as current assets less current liabilities.

(3) For 2010, includes \$60,000,000 available to Horizon.

(4) For 2009, includes \$80,000,000 available to Horizon.

(5) Calculated as available bank lines less total bank borrowing.

Working capital at June 30, 2010 was \$592,000 as compared to \$18,298 at December 31, 2009. The change was driven primarily by cash receipts from significant customer prepayments during the period which are recorded as deferred revenues, a component of current liabilities excluding borrowings. These amounts were used to purchase long lead inventory items required for major camp construction contracts and to pay down long-term bank borrowings.

At June 30, 2010 the Corporation was in violation of its current ratio debt covenant. The current ratio covenant stipulates that the Corporation maintain a minimum current ratio of 1.2:1. During the second quarter of 2010 the Corporation received significant customer prepayments which were recorded as deferred revenues, a component of current liabilities with the cash received used to purchase long lead inventory items required for major camp construction contracts and to pay down long-term bank borrowings. A waiver of covenant was obtained from the Corporation's banking syndicate, and the ratio was corrected by the Corporation on July 14, 2010 by drawing on its long term revolving facility to repay its current operating lines of credit, thus increasing working capital. The corporation was in compliance with its other debt covenants as shown below:

<b>Debt Covenant</b>	<b>June 30, 2010</b>
Current ratio <sup>(1)</sup> – must be greater than 1.2:1	1.01:1
Debt <sup>(2)</sup> to EBITDAS <sup>(3)(4)</sup> – must be less than 2:1	1.5:1
Debt service coverage <sup>(5)</sup> – must be greater than 1.5:1	6.7:1
Debt <sup>(2)</sup> to total capitalization <sup>(6)</sup> – must be less than 0.5:1	0.17:1

(1) Current ratio is calculated as ratio of current assets to current liabilities.

(2) Calculated as the sum of operating lines of credit and long-term debt.

(3) EBITDAS (Earnings before interest, taxes, depreciation, amortization, accretion of notes payable, gain/loss on disposal of property, plant and equipment and stock based compensation) is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net earnings, EBITDAS is a useful supplemental measure as it provides an indication of the Corporation's ability to generate cash flow in order to fund working capital, service debt, pay current income taxes and fund capital programs. Investors should be cautioned, however, that EBITDAS should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of the Corporation's performance. Horizon's method of calculating EBITDAS may differ from other entities and accordingly, EBITDAS may not be comparable to measures used by other entities.

(4) Debt to EBITDAS is calculated as the ratio of debt to trailing 12 months EBITDAS.

(5) Debt service coverage is calculated as the ratio of trailing 12 months EBITDAS less cash taxes to debt service. EBITDAS less cash taxes is calculated as the trailing 12 months EBITDAS less trailing 12 months current tax expense. Debt service is calculated as the sum of trailing 12 months interest expense on operating lines of credit, trailing 12 months interest expense on long-term debt and current portion of long-term debt.

(6) Debt to total capitalization is calculated as the ratio of debt to total capitalization. Total capitalization is calculated as the sum of debt and shareholder's equity.

During the three months ended June 30, 2010, the Corporation added capital assets of \$13,568,000 as compared to \$2,027,000 in the same period of 2009. Capital spending was concentrated on rental fleet replacement and additions to the blast resistant structures rental fleet. Management evaluates and manages its capital spending plans taking into account proceeds from disposals, which for the six months ended June 30, 2010 totalled \$6,172,000.

## Quarterly Summary of Results

<i>(000's except per share amounts)</i>	Three months ended		Six months ended
	March	June	June
	2010	2010	2010
Revenue	\$ 44,122	\$ 45,851	\$ 89,973
EBITDAS	9,451	7,876	17,327
Operating earnings	2,855	869	3,724
Net earnings	1,112	171	1,283
Net earnings per share	\$0.01	\$ -	\$0.01
Net earnings per share - diluted	\$0.01	\$ -	\$0.01

<i>(000's except per share amounts)</i>	Three months ended				Year ended
	March	June	September	December	December
	2009	2009	2009	2009	2009
Revenue	\$ 40,577	\$ 43,574	\$ 33,837	\$ 31,851	\$ 149,839
EBITDAS	12,390	15,419	5,272	1,446	34,527
Operating earnings (loss)	5,410	9,267	(334)	(4,847)	9,496
Net earnings (loss)	3,702	5,883	(105)	(4,024)	5,456
Net earnings (loss) per share	\$0.03	\$0.05	\$ -	(\$0.04)	\$0.05
Net earnings (loss) per share - diluted	\$0.03	\$0.05	\$ -	(\$0.04)	\$0.05

<i>(000's except per share amounts)</i>	Three months ended				Year ended
	March	June	September	December	December
	2008	2008	2008	2008	2008
Revenue	\$ 41,409	\$ 28,943	\$ 53,692	\$ 56,735	\$ 180,779
EBITDAS	12,170	4,809	14,273	13,891	45,143
Operating earnings (loss)	6,758	(1,051)	7,453	6,926	20,086
Net earnings	4,535	(1,150)	5,004	(106,338)	(97,949)
Net earnings per share	\$0.04	(\$0.01)	\$0.05	(\$0.96)	(\$0.89)
Net earnings (loss) per share - diluted	\$0.04	(\$0.01)	\$0.05	(\$0.96)	(\$0.89)

The conventional Camp & Catering operations derive a substantial portion of their revenue from servicing customers in Canada's conventional oil and gas industry. The ability to move equipment in the Canadian oil and gas fields is dependent on weather conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. The duration of this "spring breakup" has a direct impact on the activity levels of the Camp & Catering segment. In addition, many exploration and production areas in Northern Canada are accessible only in winter months when the ground is frozen hard enough to support equipment. The timing of freeze up and breakup affects the ability to move equipment in and out of these areas. As a result, late March through May was traditionally the segment's slowest time.

The year ended December 31, 2008 saw the inclusion of the operations of Northern Trailer ("Northern") for the full year. Northern's customer base is concentrated in industries such as mining, forestry and infrastructure that operate on a year round basis. As such, the addition of Northern helps mitigate seasonality factors that affect the conventional Camp & Catering operations. The BlackSand Executive Lodge was completed and operations began in the third quarter of 2008, with the majority of its capacity under contract to a large oil sands producer through the end of the year.

In the second quarter of 2009, Horizon completed contract negotiations with respect to its' BlackSand facilities. Horizon worked with its major customer to accommodate their reduced camp accommodation needs in light of deteriorating economic conditions and their reduced capital spending program. In exchange for certain contractual changes, a contract cancellation fee of \$8,000,000 was agreed to and included in the results of the second quarter of 2009. Over the last half of 2009 Horizon undertook an intense remediation project at BlackSand to correct moisture accumulation issues. The project was successfully completed in early 2010. The expansion of the craft camp by 230 beds was completed in February of 2010 and the Executive Lodge expansion was completed by the end of May 2010, adding 144 beds.

In the third quarter of 2009, Horizon invested in the development of a new product line by acquiring Paramount Structures Inc. ("Paramount"). Paramount has developed a unique blast resistant structure for use at refineries and petrochemical plants to protect employees whose jobs take them close to potential blast sources. Paramount's products were in the final stages of design development with production beginning in the fourth quarter of 2009. The first quarter of 2010 saw the first units go out on rent, generating revenue from rentals and the associated install and transport. In the second quarter of 2010 Paramount had its first revenue from sales of 10 units along with the associated transport and install revenue.

Utilization of Horizon's manufacturing facilities declined in 2009, with the effect most clearly showing in the fourth quarter of 2009 through reduced camp sales activity. Late in 2009, Horizon expanded the manufacturing capacity in its Grande Prairie, Alberta and Kamloops, British Columbia facilities. The first half of 2010 saw utilization increase with several large manufacturing projects undertaken.

The Matting segment's services are utilized to allow operations to gain access to areas with soft ground conditions. As a result, the busiest time for its rental operations is typically between spring breakup and winter freeze up. Mat rental activity increased significantly in 2009 with increased utilization levels driven primarily by shale gas exploration projects in northeastern British Columbia which ramped up throughout the year. 2009 results saw a significant decline in the number of mats sold as customers reduced capital spending in conjunction with the economic downturn experienced throughout 2009. This was especially evident in the third and fourth quarters of 2009 as economic conditions intensified, and had a negative effect on installation, transportation and service revenues. In the first quarter of 2010 the matting business improved significantly over the first quarter of 2009 with stronger mat rentals and increased mat sales. The second quarter continued to see strong activity from gas exploration, as well as an unusually wet weather created a stronger demand for matting.

The Corporation operates marine transportation and camp equipment in Canada's northern regions. Due to winter climate conditions, northern waterways are only usable by tug and barge traffic from approximately mid-June to mid-October each year. As a result, the Corporation's marine transportation services revenue are typically concentrated in this period of each year. In 2009, this activity was reduced significantly due to the general reduction in activity levels in the Northwest Territories. Some of the Corporation's barges and barge camps were used to facilitate winter projects in the 2008 winter drilling season which contributed revenues in the first quarter of 2009. This activity did not occur in the 2009 winter drilling season and therefore was not evident in the first quarter of 2010.

## **Risks and Uncertainties**

### *Volatility of Oil, Natural Gas and Mining Industry Conditions*

The demand, pricing and terms for Horizon's Camps & Catering, Matting, and Marine Services businesses depend upon the level of industry activity for oil, natural gas and mineral exploration and development in the western Canadian provinces and territories. Industry conditions are influenced by numerous factors over which Horizon has no control, including: the level of oil and natural gas and mineral prices; expectations about future oil and natural gas and mineral prices; the cost of exploring for, producing and delivering oil and natural gas and minerals; the expected rates of declining current production; the discovery rates of new oil and natural gas and mineral reserves; available pipeline and other oil and natural gas transportation capacity; demand for oil, natural gas and minerals; worldwide weather conditions; global political, military, regulatory and economic conditions; and the ability of oil and natural gas and mining companies to raise equity capital or debt financing for exploration and development work.

The level of activity in the oil and natural gas and mineral exploration and production industries is volatile. No assurance can be given that expected trends in oil and natural gas and mineral production activities will continue or that demand for transportation services will reflect the level of activity in the industry. Any prolonged substantial reduction in oil and natural gas and mineral prices would likely affect oil and natural gas and mineral production levels and therefore affect the demand for services to oil and natural gas and mining customers. A material decline in oil or natural gas or mineral prices or industry activity in any of the areas in which Horizon operates could have a material adverse effect on Horizon's business, financial condition and results of operations.

### *Status of Northern Development Projects*

Horizon has positioned its businesses to participate in northern development projects that currently have not received final regulatory approval, including the Mackenzie Valley gas pipeline project and offshore drilling projects. As of May 5th, 2010 the Mackenzie Valley gas pipeline project has moved through the affected community public hearing stage of the approval process, and Canada's National Energy Board (NEB) has completed hearings and heard final arguments from the various applicants and interveners. Final regulatory approval decisions are not expected to be received until later in 2010. No assurance can be given that this and other large development projects will ultimately receive approval to proceed.

Recent events related to drilling projects in the Gulf of Mexico have already translated into increased regulatory scrutiny regarding offshore drilling projects in both Canada and the United States. These events could have a negative impact on both the timing and economics surrounding offshore drilling projects in the Arctic.

### *Seasonal Operations*

Each of Horizon's businesses has slightly different seasonal aspects. Camps & Catering is exposed to the seasonality of the western Canadian oil and natural gas drilling industry where the busiest months are January through March and the slowest months are April through June. The Matting segment is busiest in the spring and summer months of April through September when soft ground conditions hinder the movement of heavy equipment. The Marine Services segment operates in Canada's northern regions where waterways are usable by tug and barge traffic from approximately mid-June to mid-October each year. As a result, Horizon's marine transportation revenue is concentrated in this period of each year.

### *Competition*

Horizon provides Camps & Catering, Matting and Marine Services primarily to oil and natural gas and mineral exploration and production companies in the western Canadian provinces and northern Canada. The service businesses in which Horizon operates are highly competitive. To be successful, Horizon has to provide services that meet the specific needs of its clients at competitive prices. The principal competitive factors in the markets in which Horizon operates are service, quality, availability, reliability and performance of equipment used to perform its services, technical knowledge and experience, safety records and ongoing safety programs and price. Horizon competes with several competitors that are both smaller and larger than it is. These competitors offer similar services in all geographic areas in which Horizon operates. As a result of competition, Horizon's business, financial condition and results of operations could be adversely affected.

Reduced levels of activity in the oil and natural gas and mining industries can intensify competition and result in lower revenue to Horizon. Variations in the exploration and development budgets of oil and natural gas and mining companies, which are directly affected by fluctuations in energy prices and mineral prices, the cyclical nature and competitiveness of the oil and natural gas and mining industries and governmental regulation, will have an effect upon Horizon's ability to generate revenue and earnings.

### *Credit Risk*

A substantial portion of Horizon's accounts receivable are with customers involved in the oil and natural gas and mining industries, whose revenues may be impacted by fluctuations in commodity prices. Collection of these receivables could be influenced by economic factors affecting the oil and natural gas and mining industries.

### *Additional Funding Requirements*

Horizon's cash flow may not be sufficient to fund its ongoing activities at all times. From time to time, Horizon may require additional financing. Failure to obtain such financing on a timely basis could cause Horizon to miss certain acquisition opportunities or reduce its operations. If Horizon's revenues decrease, it will affect Horizon's ability to expend the necessary capital to maintain its operations. If Horizon's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to Horizon.

### *Issuance of Debt*

From time to time, Horizon may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase Horizon's debt levels above industry standards. Horizon may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither Horizon's articles nor its by-laws limit the amount of indebtedness that Horizon may incur. The level of Horizon's indebtedness from time to time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

### *Labour Relations*

The largest component of Horizon's overall expenses is salary, wages, benefits and payments to employees, agents and contractors. Any significant increase in these expenses could impact the financial results of Horizon. In addition, Horizon will be at risk if there are any labour disruptions. Horizon believes that it has and will continue to foster a positive relationship with employees, agents and contractors.

### *Aboriginal Relationships*

A key part of Horizon's business strategy is based on developing and maintaining positive relationships with the aboriginal people and communities in the areas where Horizon operates. These relationships are important to Horizon's operations and customers who desire to work on traditional aboriginal lands. The inability to develop and maintain relationships and to be in compliance with local requirements could adversely affect Horizon's business strategy, growth and profitability.

### *Agreements and Contracts*

The business operations of Horizon depend on successful execution of performance-based contracts. The key factors which will determine whether a client will continue to use Horizon will be service quality and availability, reliability and performance of equipment used to perform its services, technical knowledge and experience, safety record and ongoing safety programs and competitive price. There can be no assurance that Horizon's relationship with its customers will continue, and a significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, could have a material adverse effect on Horizon's business, financial condition and results of operations.

### *Significant Customer*

In the second quarter ended June 30, 2010, 30% of the Corporation's revenue was attributable to one customer. Under Horizon's multi-year contract with this customer, these significant contributions to consolidated revenues are expected to continue, although at a reduced percentage of total revenues. The loss of this contracted source of revenue could have a substantial negative impact on the Corporation's future results from operations.

### *Reliance on Key Personnel*

Horizon's success depends in large measure on certain key personnel. The loss of services of such key personnel could have a material adverse effect on Horizon. Horizon does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of Horizon are likely to be of central importance. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Horizon.

### *Camp Permits*

In most cases, permits issued by government agencies are required to set up and operate remote work camp facilities. The issuance of permits is dependent upon water and waste treatment alternatives available, road traffic volumes and fire conditions in forested areas. Failure to receive or renew permits could have a negative impact on the business of the Camps & Catering segment.

### *Government Regulation*

The operations of Horizon are subject to a variety of federal, provincial and local laws of Canada, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment, the operation of equipment used in its operations and the transportation of materials and equipment it provides for its customers. Horizon invests financial and managerial resources to ensure such compliance. Although such expenditures are generally not material to service providers, such laws or regulations are subject to change. Accordingly, it is impossible for Horizon to predict the cost or impact of such laws and regulations on its future operations.

### *Environmental Regulation*

The Government of Canada and provincial governments in areas where Horizon does business have been working through various forms of regulation and legislation focused on climate change and greenhouse gas emissions. Future federal legislation, together with provincial emission reduction requirements may require the reduction of emissions or emissions intensity from Horizon's operations and facilities and those of its customers. These requirements may result in increased operating costs and capital expenditures for oil and gas and mining industry participants, thereby decreasing the demand for Horizon's services.

Management is unable to predict the impact of potential emissions targets and it is possible that changes could adversely affect Horizon's business, financial condition and results of operations. These regulations would likely result in higher operating costs for our customers in the region, putting further pressure on project economics, and may also impair Horizon's ability to provide its services economically.

### *Other Risks*

Due to the nature of Horizon's business, it is subject to a number of regulations, environmental laws and risks associated with lawsuits arising from accidents and claims. Horizon manages these risks through a combination of quality management, training and by securing insurance coverage to protect the assets of Horizon in the event of litigation.

## **Critical Accounting Estimates**

This Management's Discussion and Analysis of the Corporation's financial condition and results of operations is based on its consolidated financial statements which are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The presentation of these financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates and judgments are based on historical experience and on various assumptions that are believed to be reasonable under the circumstances. Anticipating future events cannot be done with certainty, therefore these estimates may change as new events occur, more experience is acquired and as the Corporation's operating environment changes.

The accounting estimates believed to be the most difficult, subjective or complex judgments and which are the most critical to the reporting of results of operations and financial positions are as follows:

### *Impairment of Long-Lived Assets*

Long-lived assets, which include property, plant and equipment, intangible assets and goodwill, comprise the majority of the Corporation's assets. Management assesses the carrying value of long-lived assets on a periodic basis for indications of impairment. Indications of impairment include an ongoing lack of profitability and significant changes in our competitors' positions in the market. When an indication of impairment is present, a test for impairment is carried out by comparing the carrying value of the asset to its net fair value. If the carrying amount is greater than the net fair value, the asset would be considered impaired and an impairment loss would be recognized to reduce the asset's carrying value to its estimated fair value.

### *Impairment of Goodwill*

The Corporation records goodwill relating to acquisitions when the total purchase price exceeds the fair value for accounting purposes of the net identifiable assets and liabilities of the acquired company. The goodwill balance is assessed for impairment annually at year-end or as events occur that could result in an indication of impairment. Impairment is recognized based on the fair value of the reporting segment compared to the book value of the segment. If the fair value of the segment is less than the book value, impairment is measured by allocating the fair value to the net identifiable assets as if the entity had been acquired in a business combination for a purchase price equal to its fair value. Any excess of fair value over the amounts assigned to the net identifiable assets is the fair value of the goodwill. Any excess of the book value of goodwill over this implied fair value of goodwill is the impairment amount. Impairment is charged to earnings in the period in which it occurs.

Goodwill is stated at cost less impairment and is not amortized. During the fourth quarter of 2009, Horizon completed its annual goodwill assessment and concluded that the carrying value of goodwill of the Corporation was not impaired.

## *Income Taxes*

The Corporation uses the asset and liability method which takes into account the differences between financial statement treatment and tax treatment of certain transactions, assets and liabilities. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are established to reduce future tax assets when it is more likely than not that some portion or all of the asset will not be realized. Estimates of future taxable income and the continuation of ongoing prudent tax planning arrangements have been considered in assessing the utilization of tax losses. Changes in circumstances and assumptions and clarifications of uncertain tax regulations may require changes to the valuation allowance associated with the Corporation's future tax assets.

The Corporation's businesses and operations are complex and the Corporation executed a number of significant financings, business combinations and acquisitions in its history. The computation of income taxes payable as a result of these and other transactions involves many complex factors as well as the Corporation's interpretation of relevant tax legislation and regulations. The Corporation's management believes that the provision for income tax is adequate.

## **Changes in Accounting Policies**

There have been no changes in accounting policies in the six months ended June 30, 2010.

## **Transition to International Financial Reporting Standards**

In January 2006, the Canadian Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. In February 2008, as part of its strategic plan, the AcSB confirmed that Canadian publicly accountable entities will be required to report under International Financial Reporting Standards ("IFRS"), which will replace Canadian GAAP, for years beginning on or after January 1, 2011. This adoption date will require the restatement, for comparative purposes, of amounts reported for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010. For this project a designated individual was hired in the Corporate Head office to co-ordinate and manage all aspects of Horizon's IFRS conversion project.

Horizon commenced its IFRS transition project in the fourth quarter of 2008 which is comprised of three key phases: Initial Assessment, Design and Development, and Implementation. Horizon completed the Initial Assessment phase, which included retention of an independent professional services firm to perform a high level analysis of the differences between Canadian GAAP and IFRS and the potential effects of the IFRS conversion on Horizon's accounting policies, financial reporting, external disclosures, information systems and business processes. This assessment provided insight as to significant areas of difference, the extent of impact and difficulty of implementation. Horizon is currently in the Design and Development phase, which is progressing as scheduled. This has included an in-depth analysis and evaluation of the financial impact of standards application and the various alternatives provided for under IFRS. Horizon is still determining the full effects of the IFRS implementation, and based on the current Standards, has identified the following areas as potentially having the most significant impact:

- Revenue recognition timing may be impacted for identified construction contracts with the required use of percentage of completion (IAS 11 Construction contracts)
- Impairment of property, plant and equipment assets is calculated at a more granular level under IFRS. Impairment calculations will be performed at the cash generating unit level and impairment will be recognized if the calculated recoverable amount is less than the carrying amount (IAS 36 Impairment of assets)
- Provisions for decommissioning liabilities are required for constructive obligations and the valuation requires management's best estimate of the enterprise cash flows rather than fair value measurement on initial recognition, and requires the use of current interest rates in each estimate (IAS 37 Provisions, contingent liabilities and contingent assets)
- Share-based payment awards will continue to be measured at fair value, but IFRS requires that an estimate of forfeitures must be factored into the calculation of periodic compensation expense (IFRS 2 Share based payment)
- Income tax impacts are expected to be derived directly from the accounting policy decisions made under other standards (IAS 12 Income taxes)
- Presentation of financial statements is more prescribed under IFRS and there will be a significant increase in note disclosure. This is primarily because there is more judgement required under IFRS so disclosure is considered necessary to help users understand how an entity accounts for its transactions (IAS 1 Presentation of financial statements)

This should not be regarded as a complete list, and is subject to change based on new facts and circumstances, but is intended to highlight the areas expected to have an effect. At this stage, Horizon has not completed quantification of the impact expected on the consolidated financial statements for these differences. Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings in the first comparative balance sheet.

IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application. Management is analyzing the various options available and will implement those determined to be the most appropriate for Horizon, which at this time are summarized as follows:

- Business combination rules may be applied prospectively from January 1, 2010, rather than restating all business combinations to date
- Borrowing costs may be applied to qualifying assets commenced after January 1, 2010, rather than retrospectively
- Provisions for decommissioning liability are calculated at January 1, 2010 and it is assumed that the same liability (adjusted only for the time value of money) existed when the asset was first acquired or constructed

In accordance with the transition plan, Horizon is continuing the process of evaluating its accounting policy choices, quantifying their expected effects and making recommendations of chosen accounting policies to senior management for approval and presenting to the audit committee of the Board of Directors for their review. Development of draft financial statement formats and quantification of changes are included in this second phase and will continue through the third and fourth quarters of 2010.

The IFRS impact on internal control over financial reporting, disclosure controls and procedures, business activities, financial reporting expertise and IT systems are also to be addressed:

- As the review of accounting policies is completed, an assessment will be made to determine changes required for internal controls over financial reporting. Management will ensure controls are sufficiently robust to address the resulting changes and that accurate information about the conversion process is communicated to our stakeholders
- Management has been cognizant of the upcoming transition to IFRS and as such there are no foreseen issues with our counterparties or lenders. Based on the expected changes to Horizon's accounting policies at this time, no issues are expected with the existing wording of debt covenants and related agreements as a result of the conversion to IFRS
- Training has been provided to key employees impacted by the conversion process and will continue throughout the transition. Technical training and information sessions will be presented to the board and/or audit committee as required. Horizon will continue to monitor standards development as issued by the International Accounting Standards Board and the AcSB, as well as regulatory developments as issued by the Canadian Securities Administrators which may affect the timing, nature or disclosure of the adoption of IFRS
- The final Implementation phase includes the integration of the identified solutions into processes and financial systems required for the conversion to IFRS and the comparative reporting required for the year of transition. The required system and process changes will be integrated as confirmed and validated. Resource assessment and discussions with the IT department are underway. Preliminary assessments have confirmed comparative data anticipated is adequately captured with our current systems

As the transition project progresses and outcomes are identified, Horizon may change its intentions between the time of communication of these key milestones and the changeover date. Further, changes in regulation or economic conditions at the date of the changeover or throughout the project may result in changes to the transition plan communicated above.

## Financial Instruments and Risk Management

### (a) Overview:

The Corporation is exposed to a number of different financial risks arising from normal course business operations as well as through the Corporation's financial instruments comprised of cash and cash equivalents, trade accounts receivable, trade accounts payable and accrued liabilities, income taxes receivable and payable and long-term debt. These risk factors include credit risk, liquidity risk, and market risk including currency exchange risk and interest rate risk.

The Corporation's risk management practices include identifying, analyzing and monitoring the risks faced by the Corporation. The following presents information about the Corporation's exposure to each of the risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital.

### (b) Credit risk:

Credit risk is the risk that a customer will be unable to pay amounts due causing a financial loss. The Corporation's practice is to manage credit risk by examining each new customer individually for credit worthiness before the Corporation's standard payment terms are offered. The Corporation's review may include financial statement review, credit references, or bank references. Customers that lack credit worthiness transact with the Corporation on a prepayment only basis.

The Corporation constantly monitors individual customer trade receivables, taking into consideration industry, aging profile, maturity, payment history and existence of previous financial difficulties in assessing credit risk. A formal review is performed each month for each subsidiary, focusing on amounts which have been outstanding for periods which are considered abnormal for each customer. The Corporation establishes an allowance for doubtful accounts for specifically identifiable customer balances which are assessed to have credit risk exposure.

The following shows the aged balances of accounts receivable:

(000's)	June 2010	December 2009
Neither impaired nor past due	\$ 10,598	\$ 5,234
Impaired	644	647
Outstanding 31-60 days	1,738	2,727
Outstanding 61-90 days	3,368	2,002
Outstanding more than 90 days	3,525	2,410
Total	\$ 19,873	\$ 13,020
Allowance for doubtful accounts	(644)	(647)
Accrued revenue	7,471	2,222
Other receivables	540	8,623
Total accounts receivable	\$ 27,240	\$ 23,218

In the period ended June 30, 2010, the Corporation provided an allowance for \$1,000 of receivables aged greater than 90 days and also collected \$10,000 on amounts which had previously been allowed for. The Corporation also applied \$6,000 of allowance for doubtful accounts against the associated receivable balance. As at August 9, 2010 the Corporation has collected \$568,000 on amounts outstanding more than 90 days and other receivables respectively.

### (c) Liquidity risk:

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation believes that it has access to sufficient capital through internally generated cash flows and committed credit facilities to meet current spending forecasts.

To manage liquidity risk, the Corporation forecasts operational results and capital spending on a regular basis. Actual results are compared to these forecasts to monitor the Corporation's ability to continue to meet spending forecasts. In addition, the Corporation's credit facilities in place at June 30, 2010 are the following:

- \$20,000,000 revolving credit facility secured by a floating charge on land, a first floating charge on all present and after-acquired real property, and a first ranking security interest in all personal property of the Corporation and its wholly owned subsidiaries. Interest is payable at the bank prime rate plus 1.25% (June 30, 2010 – 3.75%).
- \$40,000,000 senior secured revolving term facility secured by a floating charge on land, a first floating charge on all present and after-acquired real property, and a first ranking security interest in all personal property of the Corporation and its wholly owned subsidiaries. Interest is payable at the bank prime rate plus 1.50% (June 30, 2010 – 4.00%).

The following shows the timing of cash outflows relating to trade and other payables and funded debt.

(000's)	June 2010		December 2009	
	Trade and other payables <sup>(1)</sup>	Funded debt <sup>(2)</sup>	Trade and other payables <sup>(1)</sup>	Funded debt <sup>(2)</sup>
Year 1	\$ 33,524	\$ 10,410	\$ 14,459	\$ 8,839
Year 2	-	8,398	-	13,166
Year 3	-	9,850	-	15,554
Year 4	-	2,475	-	3,425
Year 5	-	3,376	-	3,718
	\$ 33,524	\$ 34,509	\$ 14,459	\$ 44,702

(1) Trade and other payables include bank indebtedness, accounts payable and accrued liabilities, deferred revenues.

(2) Funded debt includes operating lines of credit and long-term debt. Horizon's senior secured revolving term facility reached its term on February 1, 2010. The facility was renewed and extended to its next renewal date of July 2, 2011 and has been assumed to be termed out on the next renewal date. Cash flows of Horizon's note payable have been recorded according to estimated utilization of specific equipment.

(d) Market risk:

Market risk is the risk or uncertainty arising from possible market price movements and their impact on future performance of the Corporation. The market price movements that could adversely affect the value of the Corporation's financial assets, liabilities and expected future cash flows include foreign currency exchange risk and interest rate risk. As the Corporation's exposure to foreign currency exchange risk and interest rate risk is limited, the Corporation does not currently hedge its financial instruments.

Foreign currency exchange risk

The Corporation has limited exposure to foreign currency exchange risk as sales and purchases are typically denominated in Canadian Dollars (CAD). The Corporation's exposure to foreign currency exchange risk arises from the purchase of some raw materials which are denominated in U.S. Dollars (USD). Raw material purchases affect inventory, capital assets, cost of goods sold and depreciation expense balances, therefore, sensitivity analysis is limited to cash used in operating activities. The effect of a \$0.01 increase in the USD/CAD exchange rate would decrease cash used in operating activities for the three months ended June 30, 2010 by approximately \$3,000 (\$1,000 – June 30, 2009). This assumes that the quantity of USD raw material purchases in the period ended June 30, 2010 remains unchanged and that the change in the USD/CAD exchange rate is effective from the beginning of the year.

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 and senior secured revolving term facility which bear interest at rates of prime plus 1.25% and prime plus 1.50%, respectively. If prime were to have increased by 1%, it is estimated that the Corporation's net earnings would have decreased by approximately \$81,000 for the three months ended June, 2010 (\$96,000 – June 30, 2009). This assumes that the amount and mix of fixed and floating rate debt in the three months ended June 30, 2010 remains unchanged and that the change in interest rates is effective from the beginning of the year.

## Outstanding Shares

Horizon had 105,214,863 voting common shares issued and outstanding with a book value of \$171,126,000 or \$1.63 per share as at June 30, 2010.

## Off Balance Sheet Financing

Horizon has no off balance sheet financing.

## Contractual Obligations and Contingencies

There have been no changes to Horizon's contractual obligations and contingencies for the period ended June 30, 2010.

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

## *Disclosure Controls & Procedures*

Disclosure controls and procedures (DC&P) are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at December 31, 2009, an evaluation was carried out, under the supervision of the CEO and the CFO, of the effectiveness of the design and operation of Horizon's DC&P as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings.

Based on that evaluation, the CEO and CFO concluded that Horizon's DC&P were not effective, due to the weaknesses discussed in internal control over financial reporting below, to ensure that information required to be disclosed in the reports that Horizon files or submits under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein.

As at June 30, 2010 there were no changes in Horizon's DC&P that occurred during the three months ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, Horizon's DC&P. Management will continue to periodically evaluate Horizon's DC&P and will make any modifications from time-to-time as deemed necessary.

## *Internal Controls over Financial Reporting*

Internal controls over financial reporting (ICFR) are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with Canadian GAAP. Management is responsible for establishing and maintaining adequate ICFR.

Horizon's ICFR includes policies and procedures that pertain to the maintenance of records that provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with Canadian GAAP and that receipts and expenditures are being made only in accordance with authorizations of management and directors; pertain to the maintenance of records that in reasonable detail accurately and fairly reflect transactions and disposition of assets; and are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on annual and interim consolidated financial statements.

Because of inherent limitations, ICFR can only provide reasonable assurance and may not prevent or detect all misstatements. Additionally, projections of an evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As at December 31, 2009, an evaluation was carried out, under the supervision of the CEO and the CFO, of the effectiveness of Horizon's ICFR based on the framework and criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on this evaluation, management has concluded that the design and operating effectiveness of Horizon's ICFR was not effective as of December 31, 2009. Horizon, due to its corporate structure, decentralized operations and strategy of growth through acquisition does have weaknesses in its ICFR. The nature of Horizon's structure and operations raises a risk of misstatements with respect to the handling of complex and non-routine accounting and tax related transactions. This weakness is mitigated by management and board reviews and by utilizing outside consultants with the appropriate expertise when the need arises and by developing in-house expertise or recruiting the necessary personnel with the expertise to mitigate these risks. However, there is no guarantee that a material misstatement would be prevented.

In spite of these weaknesses, the CEO and the CFO have concluded, as of the date hereof, that Horizon's internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

## *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.

## Changes in Internal Control over Financial Reporting

During the three months ended June 30, 2010, Horizon made no changes to internal controls over financial reporting.

### Transactions with Related Parties

Description of related party		June 30, 2010		June 30, 2009	
		3 months	6 months	3 months	6 months
Corporation of which a director of Horizon is an officer	Purchases	\$ -	\$ -	\$ 5,000	\$ 17,000
	Sales	-	-	74,000	74,000
	Included in Trade AR	-	-	100,000	100,000
Corporation of which a director of Horizon is an officer and an officer of Horizon is a director	Purchases	125,000	181,000	18,000	22,000
	Sales	3,000	27,000	8,000	25,000
	Included in Trade AP	31,000	31,000	1,000	1,000
Corporation which is a significantly influenced investee	Included in Trade AR	66,000	66,000	66,000	66,000
Corporation which is a significantly influenced investee	Sales	411,000	469,000	1,276,000	2,808,000
	Recovery of administrative overhead charged	16,000	39,000	34,000	91,000
	Management Fees	215,000	215,000	-	-
	Included in Trade AR	168,000	168,000	1,301,000	1,301,000
Corporation which is a significantly influenced investee	Purchases	-	-	51,000	96,000
	Sales	-	-	49,000	135,000
	Interest earned	-	-	366,000	369,000
	Included in Trade AR	-	-	51,000	51,000
	Included in Trade AP	-	-	12,000	12,000
Corporation which is a jointly controlled investee	Purchases	11,000	11,000	54,000	55,000
	Sales	-	-	25,000	50,000
	Rent charged	25,000	50,000	53,000	54,000
	Recovery of administrative overhead charged	15,000	30,000	21,000	54,000
	Included in Trade AR	1,000	1,000	7,000	7,000
	Included in Trade AP	13,000	13,000	52,000	52,000
Corporation which is jointly controlled by one of the directors of Horizon	Rent paid	15,000	29,000	15,000	29,000
	Included in Trade AR	5,000	5,000	-	-

All related party transactions in the normal course of operations have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

## Caution Regarding Forward-Looking Information and Statements

Certain statements contained in this Management Discussion and Analysis (“MD&A”), constitute forward-looking statements or information. These statements relate to future events or future performance of Horizon. All statements other than statements of historical fact are forward-looking statements. The use of any of the words “*anticipate*”, “*plan*”, “*continue*”, “*estimate*”, “*expect*”, “*may*”, “*will*”, “*project*”, “*predict*”, “*potential*”, “*should*”, “*believe*” and similar expressions are intended to identify forward-looking statements.

In particular such forward-looking statements include under the Heading “Outlook” the statement that “from a financing perspective, the Company’s combined cash flow and borrowing capacity on our credit lines is sufficient to support our existing plans”.

The foregoing statement is based on the assumption that there will be no significant adverse changes to the cash flow or borrowing capacity of the Company, however, there is a risk that anticipated cash flow and borrowing capacity could be impaired to the point that the Company may not be able to finance its existing plans.

# HORIZON NORTH LOGISTICS INC.

## Consolidated Balance Sheets

June 30, 2010 and December 31, 2009 (Unaudited)

(000's)	June 2010	December 2009
<b>Assets</b>		
Current assets:		
Cash	\$ -	\$ 3,724
Accounts receivable	27,240	23,218
Inventory	13,990	11,834
Prepaid expenses	2,532	1,830
Income tax receivable	763	990
	44,525	41,596
Other assets	3,002	3,061
Property, plant and equipment, net (Note 4)	169,876	156,426
Intangible assets, net	31,102	35,320
Goodwill	2,136	2,136
Long-term investments (Note 5)	2,266	2,463
	\$ 252,907	\$ 241,002
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness	\$ 2,135	\$ -
Operating lines of credit	8,700	6,900
Accounts payable and accrued liabilities	16,252	12,391
Deferred revenue	15,135	2,068
Current portion of long-term debt (Note 6)	1,711	1,939
	43,933	23,298
Long-term debt (Note 6)	24,098	35,863
Future income tax liability	13,750	12,687
	81,781	71,848
Shareholders' equity:		
Share capital (Note 8)	245,353	245,353
Contributed surplus (Note 8)	12,501	11,812
Deficit	(86,728)	(88,011)
	171,126	169,154
	\$ 252,907	\$ 241,002

See accompanying notes to the consolidated financial statements.

# HORIZON NORTH LOGISTICS INC.

## Consolidated Statements of Operations and Deficit

Three and six months ended June 30, 2010 and 2009 (Unaudited)

<i>(000's) except per share amounts</i>	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Revenue	\$ 45,851	\$ 43,574	\$ 89,973	\$ 84,151
Expenses:				
Cost of goods sold	11,319	8,025	17,366	12,720
Operating	24,146	17,996	49,809	39,081
General and administrative	2,539	2,115	5,468	4,529
Stock based compensation	357	197	689	108
Depreciation of property, plant and equipment	4,256	4,791	8,265	9,550
Amortization of intangible assets	2,139	2,242	4,277	4,484
Loss (gain) on disposal of property, plant and equipment	255	(1,078)	372	(1,010)
Foreign exchange (gain) loss	(29)	19	3	12
	44,982	34,307	86,249	69,474
Operating earnings	869	9,267	3,724	14,677
Interest income	(14)	(10)	(14)	(16)
Interest expense on operating lines of credit	99	88	170	152
Interest expense on long-term debt	331	419	785	854
Accretion of notes payable	(147)	-	(54)	-
Loss (earnings) on equity investments	150	(22)	197	164
Earnings before income taxes	450	8,792	2,640	13,523
Income taxes (Note 7)				
Current tax (recovery) expense	(64)	737	294	861
Future tax expense	343	2,172	1,063	3,077
	279	2,909	1,357	3,938
Net earnings and other comprehensive income	171	5,883	1,283	9,585
Deficit, beginning of period	(86,899)	(89,765)	(88,011)	(93,467)
Deficit, end of period	\$ (86,728)	\$ (83,882)	\$ (86,728)	\$ (83,882)
Earnings per share:				
Basic	\$ -	\$ 0.05	\$ 0.01	\$ 0.09
Diluted	\$ -	\$ 0.05	\$ 0.01	\$ 0.09

See accompanying notes to the consolidated financial statements.

# HORIZON NORTH LOGISTICS INC.

Consolidated Statements of Cash Flows

Three and six months ended June 30, 2010 and 2009 (Unaudited)

(000's)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Cash provided by (used in):				
Operating activities:				
Net earnings	\$ 171	\$ 5,883	\$ 1,283	\$ 9,585
Items not involving cash:				
Depreciation of property, plant and equipment	4,256	4,791	8,265	9,550
Amortization of intangible assets	2,139	2,242	4,277	4,484
Future income tax expense	343	2,172	1,063	3,077
Stock based compensation	357	197	689	108
Amortization of other assets	32	-	59	-
Accretion of notes payable	(147)	-	(54)	-
Loss (earnings) on equity investments	150	(22)	197	164
Gain on sale of property, plant and equipment	(256)	(1,327)	(1,079)	(1,663)
	7,045	13,936	14,700	25,305
Changes in non-cash working capital items	18,918	5,477	5,799	3,272
	25,963	19,413	20,499	28,577
Investing activities:				
Purchase of property, plant and equipment	(13,568)	(2,027)	(22,409)	(8,070)
Purchase of intangibles	(43)	-	(59)	-
Proceeds on sale of property, plant and equipment	2,072	3,868	6,172	5,272
Return of capital from equity investments	-	589	-	589
	(11,539)	2,430	(16,296)	(2,209)
Changes in non-cash working capital items	(2,483)	-	39	-
	(14,022)	2,430	(16,257)	(2,209)
Financing activities:				
(Repayment of) proceeds from bank indebtedness	(498)	251	2,135	(377)
Proceeds from operating lines of credit	1,800	1,719	1,800	504
Proceeds from long-term debt	8,400	-	20,143	-
Repayment of long-term debt	(21,730)	(23,244)	(32,082)	(25,186)
	(12,028)	(21,274)	(8,004)	(25,059)
Changes in non-cash working capital items	87	72	38	(161)
	(11,941)	(21,202)	(7,966)	(25,220)
Decrease in cash position	-	641	(3,724)	1,148
Cash, beginning of period	-	507	3,724	-
Cash, end of period	\$ -	\$ 1,148	\$ -	\$ 1,148
Supplementary information:				
Income taxes (received) paid	\$ (66)	\$ (1,679)	\$ 234	\$ 7,009
Interest income received	14	10	14	2,197
Interest paid	445	615	969	39

See accompanying notes to the consolidated financial statements.

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements (Unaudited), page 1

Three and six months ended June 30, 2010 and 2009

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## 1. Basis of Presentation

### (a) General

These unaudited interim consolidated financial statements for Horizon North Logistics Inc. (the "Corporation" or "Horizon") were prepared using accounting policies and methods of their application consistent with those used in the preparation of the Corporation's consolidated audited financial statements for the year ended December 31, 2009. These unaudited interim financial statements conform in all respects to the requirements of generally accepted accounting principles in Canada for annual financial statements with the exception of certain note disclosures regarding balance sheet items and transactions occurring prior to the current reporting period. As a result, these financial statements should be read in conjunction with the Corporation's consolidated audited financial statements for the year ended December 31, 2009.

### (b) Nature of business

Horizon provides camp & catering, ground matting, and marine transportation services to oil and gas exploration and production companies, oilfield service companies and mining companies working on oil sands, mineral exploration and development, and conventional oil and gas projects primarily in western Canada.

## 2. Significant Accounting Policies

### (a) Seasonality of operations

The Corporation's Camp & Catering segment derives a substantial portion of its revenue from servicing customers in Canada's oil and gas industry. The ability to move equipment in the Canadian oil and gas fields is dependent on weather conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. The duration of this "spring break up" has a direct impact on the activity levels of the Camp & Catering segment. In addition, many exploration and production areas in northern Canada are accessible only in winter months when the ground is frozen hard enough to support equipment. The timing of freeze up and break up affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the segment's slowest time. Horizon's expansion into the Fort McMurray, Alberta oil sands region has reduced this seasonality as oil sands developments operate year-round and will provide a steadier source of activity for the segment.

The Matting segment's services are utilized to allow operations to gain access to areas with soft ground conditions. As a result, the busiest time for its rental operations is traditionally between break up and freeze up.

The Corporation operates marine transportation equipment in Canada's northern regions. Due to winter climate conditions, northern waterways are usable by tug and barge traffic from approximately mid-June to mid-October each year.

### (b) Comparative figures

Certain prior period amounts have been reclassified to conform to the current period's presentation.

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements (Unaudited), Page 2

Three and six months ended June 30, 2010 and 2009

## 3. Acquisitions

**For the year ended December 31, 2009:**

On July 22, 2009, Horizon acquired all of the common shares of Paramount Structures Inc. ("Paramount") for cash of \$818,000. Paramount designs, manufactures, sells and rents modular blast resistant portable building solutions to customers with refinery and petrochemical plant operations. The purchase price and its allocation to assets and liabilities were as follows:

(000's)	Amount
Inventory	\$ 208
Property, plant and equipment	10
Intangible assets	293
Goodwill	472
Current liabilities	(237)
Future income tax assets	72
<b>Total cash consideration</b>	<b>\$ 818</b>

## 4. Property, Plant & Equipment

June 30, 2010 (000's)	Cost	Accumulated Depreciation	Net Book Value
Camp facilities	\$ 121,594	\$ 21,849	\$ 99,745
Tugs, barges & other marine equipment	18,553	5,223	13,330
Buildings	14,628	2,954	11,674
Automotive & trucking equipment	19,344	8,062	11,282
Mats	8,407	2,801	5,606
Land	7,858	-	7,858
Fuel supply & camp & catering equipment	9,104	2,381	6,723
Leasehold improvements	1,250	639	611
Manufacturing equipment	1,063	460	603
Furniture & fixtures & other equipment	893	579	314
Computer hardware & software	1,217	467	750
Capital assets under construction	11,380	-	11,380
	<b>\$ 215,291</b>	<b>\$ 45,415</b>	<b>\$ 169,876</b>

December 31, 2009 (000's)	Cost	Accumulated Depreciation	Net Book Value
Camp facilities	\$ 111,486	\$ 17,867	\$ 93,619
Tugs, barges & other marine equipment	18,276	4,755	13,521
Buildings	14,849	2,600	12,249
Automotive & trucking equipment	16,310	6,740	9,570
Mats	9,189	3,063	6,126
Land	8,029	-	8,029
Fuel supply & camp & catering equipment	9,738	2,724	7,014
Leasehold improvements	1,116	522	594
Manufacturing equipment	1,009	440	569
Furniture & fixtures & other equipment	814	435	379
Computer hardware & software	1,003	380	623
Capital assets under construction	4,133	-	4,133
	<b>\$ 195,952</b>	<b>\$ 39,526</b>	<b>\$ 156,426</b>

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements (Unaudited), Page 3

Three and six months ended June 30, 2010 and 2009

## 5. Long-Term Investments

(000's)	Mackenzie Valley	MDIOS	Beaufort	Total Investments
Balance December 31, 2008	\$ 1,343	\$ 948	\$ 1	\$ 2,291
Earnings (loss) on equity investment	(19)	190	-	171
Balance December 31, 2009	\$ 1,324	\$ 1,138	\$ 1	\$ 2,463
Earnings (loss) on equity investment	5	(202)	-	(197)
Balance June 30, 2010	\$ 1,329	\$ 936	\$ 1	\$ 2,266

## 6. Long-Term Debt

(000's)	June 2010	December 2009
Senior secured revolving term facility	\$ 17,700	\$ 29,100
Vehicle and equipment financing	73	197
Notes payable	8,036	8,505
	\$ 25,809	\$ 37,802
Less current portion	(1,711)	(1,939)
	\$ 24,098	\$ 35,863

At June 30, 2010 the Corporation was in violation of its working capital ratio covenant which stipulates that the Corporation must maintain a minimum current ratio of 1.2:1. This situation was rectified on July 14, 2010 by borrowing under the Corporation's revolving term facility and repaying its operating line of credit. The Corporation has received a waiver of covenant from its borrowing syndicate.

The carrying value of Horizon's long-term debt approximates its fair value as the majority of the debt bears interest at variable rates.

## 7. Income Taxes

The provision for income taxes differs from that which would be expected by applying statutory rates. A reconciliation of the difference is as follows:

(000's)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Earnings before income taxes	\$ 450	\$ 8,792	\$ 2,640	\$ 13,523
Combined federal and provincial income tax rate	<u>28.0%</u>	<u>29.0%</u>	<u>28.0%</u>	<u>29.0%</u>
Expected income tax provision	126	2,550	739	3,922
Non-deductible stock based compensation	100	58	193	32
Loss (earnings) on equity investments	42	(39)	55	(71)
Income taxes on variable interest entities	-	-	300	-
Change in estimated timing of realization of temporary differences	19	313	61	(14)
Other	(8)	27	9	69
	\$ 279	\$ 2,909	\$ 1,357	\$ 3,938

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements (Unaudited), Page 4

Three and six months ended June 30, 2010 and 2009

## 8. Share Capital

(a) Authorized

Unlimited number of voting common shares without nominal or par value  
Unlimited number of preferred shares issuable in series

(b) Issued

	Number	Amount (000's)
Balance at December 31, 2008	110,400,363	\$ 257,505
Repurchased and cancelled shares	(5,185,500)	(12,095)
Share purchase costs	-	(57)
Balance at December 31, 2009	105,214,863	\$ 245,353
Balance at June 30, 2010	105,214,863	\$ 245,353

The Corporation was granted approval from the Toronto Stock Exchange for a normal course issuer bid to repurchase up to a maximum of 7,426,978 common shares of the Corporation over the period from July 24, 2009 to July 23, 2010. As of expiration on July 23, 2010, 5,185,500 common shares have been repurchased and cancelled for a weighted average purchase price of \$1.24 including transaction costs.

(c) Stock option plan

The Corporation has a stock 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. Stock option vesting privileges are at the discretion of the Board of Directors and were set at three years for the 2006 plan.

	Outstanding options	Weighted average exercise price per share \$	Options exercisable
Balance December 31, 2009	6,021,000	2.46	2,810,488
Granted	160,000	1.73	-
Forfeited	(51,000)	2.88	-
Balance June 30, 2010	6,130,000	2.44	3,091,658

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements (Unaudited), Page 5

Three and six months ended June 30, 2010 and 2009

## 8. Share Capital (continued)

### (c) Stock option plan (continued)

The exercise prices for options outstanding at June 30, 2010 are as follows:

Exercise price per share	Number	Total options outstanding		Exercisable options	
		Weighted average exercise price per share \$	Weighted average remaining contractual life in years	Number	Weighted average exercise price per share \$
\$1.35 to \$1.49	2,587,500	1.37	4.5	-	-
\$1.50 to \$1.74	80,000	1.62	4.7	-	-
\$1.75 to \$2.00	80,000	1.84	4.8	-	-
\$3.10 to \$3.25	2,022,500	3.24	1.8	1,821,659	3.24
\$3.26 to \$3.50	1,355,000	3.35	5.7	1,264,999	3.35
\$3.51 to \$3.75	5,000	3.56	1.9	5,000	3.56
	6,130,000	2.44	3.9	3,091,658	3.29

The Corporation calculated the fair value of the stock options granted using the Black-Scholes pricing model to estimate the fair value of the stock options issued at the date of grant. The weighted average fair market value of all options outstanding and the assumptions used in their determination are as follows: weighted average fair value per option \$1.12 (June 30, 2009 – \$1.43); weighted average expected life of 3.3 years (June 30, 2009 – 3.5), weighted average risk-free interest rate 3.24% (June 30, 2009 – 4.0%), and weighted average volatility 68.9% (June 30, 2009 – 58.0%).

### (d) Contributed surplus

(000's)	Amount
Balance December 31, 2009	11,812
Stock based compensation	689
Balance June 30, 2010	12,501

### (e) Per share amounts

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

	June 2010	June 2009
Weighted average common shares outstanding – basic	105,214,863	110,400,363
Effect of share purchase options	52,075	-
Weighted average common shares outstanding – diluted	105,266,938	110,400,363

# HORIZON NORTH LOGISTICS INC.

Notes to the Consolidated Financial Statements (Unaudited), Page 6

Three and six months ended June 30, 2010 and 2009

## 9. Segmented Information

The Corporation operates in Canada through three business segments: Camps & Catering, Matting, and Marine Services. Camps & Catering includes camp rental and catering services as well as the manufacture, sale and repair of camps. Matting includes mat rental, installation, and fleet management services as well as the manufacture and sale of mats. Marine Services includes marine transportation of equipment, supplies and the rental of barge camps in Canada's northern regions.

Three months ended June 30, 2010 (000's)	Camps & Catering	Matting	Marine Services	Corporate	Inter-segment Eliminations	Total
Revenue	\$ 40,437	\$ 5,686	\$ 396	\$ -	\$ (668)	\$ 45,851
Operating earnings (loss)	3,237	392	(880)	(1,878)	(2)	869
Depreciation and amortization	4,655	1,344	296	120	(20)	6,395
Loss (gain) on disposal of assets	264	(21)	-	12	-	255
Stock based compensation	120	32	3	202	-	357
Total assets	205,222	25,169	17,984	4,532	-	252,907
Intangible assets	23,729	7,138	-	235	-	31,102
Goodwill	2,136	-	-	-	-	2,136
Capital expenditures	11,251	2,273	24	71	(51)	13,568

Three months ended June 30, 2009 (000's)	Camps & Catering	Matting	Marine Services	Corporate	Inter-segment Eliminations	Total
Revenue	\$ 37,925	\$ 4,039	\$ 1,992	\$ -	\$ (382)	\$ 43,574
Operating earnings (loss)	10,467	(240)	637	(1,629)	32	9,267
Depreciation and amortization	5,204	1,513	289	59	(32)	7,033
(Gain) loss on disposal of assets	(1,027)	(51)	-	-	-	(1,078)
Stock based compensation	17	23	3	154	-	197
Total assets	174,912	26,952	19,704	6,620	(175)	228,013
Intangible assets	29,157	9,391	-	-	-	38,548
Goodwill	1,664	-	-	-	-	1,664
Capital expenditures	1,469	476	-	82	-	2,027

Six months ended June 30, 2010 (000's)	Camps & Catering	Matting	Marine Services	Corporate	Inter-segment Eliminations	Total
Revenue	\$ 76,024	\$ 15,176	\$ 629	\$ -	\$ (1,856)	\$ 89,973
Operating earnings (loss)	8,421	938	(1,318)	(4,256)	(61)	3,724
Depreciation and amortization	9,114	2,679	591	193	(35)	12,542
Loss on disposal of assets	284	76	-	12	-	372
Stock based compensation	242	59	6	382	-	689
Total assets	205,222	25,169	17,984	4,532	-	252,907
Goodwill	2,136	-	-	-	-	2,136
Intangible assets	23,729	7,138	-	235	-	31,102
Capital expenditures	18,162	4,070	277	102	(202)	22,409

Six months ended June 30, 2009 (000's)	Camps & Catering	Matting	Marine Services	Corporate	Inter-segment Eliminations	Total
Revenue	\$ 72,041	\$ 9,166	\$ 3,747	\$ -	\$ (803)	\$ 84,151
Operating earnings (loss)	17,399	(838)	1,236	(3,184)	64	14,677
Depreciation and amortization	10,341	3,069	578	110	(64)	14,034
(Gain) loss on disposal of assets	(1,023)	13	-	-	-	(1,010)
Stock based compensation	125	38	6	(61)	-	108
Total assets	174,912	26,952	19,704	6,620	(175)	228,013
Intangible assets	29,157	9,391	-	-	-	38,548
Goodwill	1,664	-	-	-	-	1,664
Capital expenditures	6,818	941	32	279	-	8,070

## **CORPORATE INFORMATION**

### **DIRECTORS**

Ethel Blondin-Andrew<sup>(2)(3)</sup>  
Yellowknife, Northwest Territories

Bob German  
Calgary, Alberta

Roderick Graham<sup>(1)(2)</sup>  
Calgary, Alberta

Steven Grant<sup>(1)(2)</sup>  
Houston, Texas

Bruce Mullen<sup>(2)(3)</sup>  
Calgary, Alberta

Russell Newmark<sup>(1)(2)</sup>  
Calgary, Alberta

Ric Peterson  
Calgary, Alberta

Dean Swanberg<sup>(3)</sup>  
Grande Prairie, Alberta

Dale E. Tremblay<sup>(1)(3)</sup>  
Calgary, Alberta

- (1) Audit Committee Member
- (2) Corporate Governance and Compensation Committee Member
- (3) Health, Safety and Environment Committee Member

### **CORPORATE OFFICE**

1600, 505-3rd Street S.W.  
Calgary, Alberta  
T2P 3E6  
P 403 517-4654  
F 403 517-4678

### **WEB SITE**

[www.horizonnorth.ca](http://www.horizonnorth.ca)

### **OFFICERS**

Ric Peterson  
Executive Chairman

Bob German  
President and Chief Executive Officer

Scott Matson  
Vice President Finance and Chief Financial Officer

Bill Anderson  
Vice President Health, Safety and Environment

Jan Campbell  
Corporate Secretary

### **LEGAL COUNSEL**

Borden Ladner Gervais LLP  
Calgary, Alberta

### **AUDITOR**

KPMG LLP  
Calgary, Alberta

### **STOCK EXCHANGE LISTING**

Toronto Stock Exchange  
Symbol: HNL

### **TRANSFER AGENT**

CIBC Mellon Trust Company  
Calgary, Alberta